

MOORS & CABOT, INC.
Banking & Advisory Group

NEW ISSUE

Moody's: Aaa (Aa3)
S&P:AAA (AA-)

In the opinion of Bond Counsel, under existing statutes and court decisions, and assuming compliance with certain covenants, interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest will not be treated as a preference item to be included in calculating alternative minimum taxable income under the Code with respect to individuals and corporations; however, such interest will be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the alternative minimum tax and the foreign branch profits tax. Bond Counsel is also of the opinion that the interest paid on the Bonds is exempt from income tax imposed upon individuals by the State of Maine (the "State") under existing statutes, regulations and judicial decisions. **The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.** See "THE BONDS—TAX MATTERS" and "APPENDIX C" herein.

CITY OF BANGOR, MAINE
\$9,227,000
2004 GENERAL OBLIGATION BONDS

Dated: June 1, 2004

Due: November 1, as shown below

<u>Year of</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>	<u>Year of</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>
2004	\$ 212,000	2.50%	NRO	2014	\$210,000	4.00%	4.05
2005	1,320,000	2.50	1.65	2015	205,000	4.20	100
2006	1,275,000	3.00	2.20	2016	155,000	4.30	100
2007	1,235,000	3.00	NRO	2017	155,000	4.40	100
2008	1,190,000	3.25	NRO	2018	155,000	4.50	100
2009	1,140,000	3.50	NRO	2019	155,000	4.60	100
2010	570,000	3.50	100	2020	155,000	4.65	100
2011	210,000	4.00	3.70	2021	155,000	4.70	100
2012	210,000	4.00	3.85	2022	155,000	4.75	100
2013	210,000	4.00	3.95	2023	155,000	4.80	100

The Bonds will be issued as fully-registered certificates without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof and with one denomination of \$2,000 for the Bonds that mature in 2004. Purchasers will not receive certificates representing their interest in Bonds purchased. See "THE BONDS—BOOK-ENTRY-ONLY SYSTEM" herein. Principal and interest on the Bonds will be paid to DTC by US Bank National Association, Boston, Massachusetts, as Paying Agent. Interest on the Bonds will be payable on November 1, 2004 and semi-annually on each May 1 and November 1 thereafter until maturity or redemption prior to maturity. Payment of the principal of and interest on the Bonds when due, will be insured by a municipal bond insurance policy to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Bonds. See "THE BONDS—BOND INSURANCE" and "APPENDIX E".



The legal opinion of Pierce Atwood, of Portland, Maine, Bond Counsel, will be provided to the original purchaser and will indicate that the Bonds are valid general obligations of the City of Bangor, Maine and, unless paid from other sources, are payable as to both principal and interest from ad valorem taxes which may be levied without limit as to rate or amount upon all the property within the territorial limits of the City and taxable by it, except to the extent that the City may enter into an agreement under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality and except to the extent that the City establishes or has established either municipal development districts as tax increment financing districts or municipal affordable housing development districts pursuant to Title 30-A, Chapters 206 & 207 of the Maine Revised Statutes, as amended, the captured tax increment of which may not be available for payment of debt service on the Bonds. The Finance Director has certified that no agreements under Chapter 223, Subchapter V, to share assessed valuation with another municipality, now exist. The City has established certain tax increment financing districts and elected to retain a portion of the tax increment on the captured assessed value of the property in the districts to pay costs of the development project within the districts. Within the limits established by statute, the City has the right to designate additional municipal development districts or affordable housing development districts pursuant to Chapter 206 of Title 30-A of the Maine Revised Statutes, as amended. The opinion will indicate that the enforceability of the obligations of the City, including the Bonds, is subject to and may be limited by bankruptcy, insolvency, moratorium and other laws affecting the rights and remedies of creditors generally, and are subject to general principles of equity. The opinion will be dated and given on and will speak as of the date of original delivery of the Bonds to the original purchasers.

Bonds maturing on or before November 1, 2014 are not subject to optional redemption prior to their stated dates of maturity. Bonds maturing after November 1, 2014 are subject to redemption prior to maturity, at the option of the City, on and after November 1, 2014 as more fully set forth herein. See "THE BONDS—OPTIONAL REDEMPTION PRIOR TO MATURITY" herein.

The Bonds are offered when, as and if issued, subject to the approval of legality by Pierce Atwood, of Portland, Maine, Bond Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC on or about June 10, 2004.

Wells Fargo Brokerage Services, LLC

No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, any party other than the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition or affairs of the Issuer since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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**CERTIFICATE
CONCERNING OFFICIAL STATEMENT**

The information contained herein has been prepared by the City of Bangor, Maine with the assistance of Moors & Cabot, Inc., its Financial Advisor, from the records of the City and from various other public documents and sources which are believed to be reliable. There has been no independent investigation of such information by Moors & Cabot, Inc. or by Pierce Atwood, Bond Counsel, and such information is not guaranteed as to accuracy or completeness and is not intended to be a representation by the Financial Advisor or Bond Counsel.

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or its agencies and authorities, since the date hereof.

To the best of the knowledge and belief of the Finance Director, this Official Statement does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements made herein, in the light of the circumstances under which they were made, not misleading, subject to the condition that while information in the Official Statement obtained from sources other than the City is not guaranteed as to accuracy, completeness or fairness, she has no reason to believe that such information is materially inaccurate or misleading. A certificate to this effect, with such if any corrections, changes and additions as may be necessary, will be signed by the Finance Director and furnished at the closing.

This Official Statement is in a form "deemed final" by the issuer for purposes of Securities and Exchange Commission's Rule 15c2-12(b) [17 C.F.R. §240.15c2-12(b)].

Deborah A. Cyr
Finance Director
City of Bangor, Maine

OFFICIAL STATEMENT
CITY OF BANGOR, MAINE
\$9,227,000
2004 GENERAL OBLIGATION BONDS

This Official Statement is provided for the purpose of presenting certain information relating to the City of Bangor, Maine (the "City" or "Bangor") in connection with the sale of its 2004 General Obligation Bonds (the "Bonds" or the "2004 Bonds").

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds will be issued only as fully-registered bonds without coupons, one certificate per maturity, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York City, New York. DTC will act as the securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof and with one denomination of \$2,000 for the Bonds that mature in 2004. The Bonds will be dated June 1, 2004 and will bear interest, payable on November 1, 2004 and semi-annually thereafter on May 1 and November 1 of each year until maturity or redemption prior to maturity. The Bonds will mature annually as follows:

<u>Amount</u>	<u>November 1,</u>	<u>CUSIP</u>	<u>Amount</u>	<u>November 1,</u>	<u>CUSIP</u>
\$212,000	2004	060095J72	\$210,000	2014	060095K96
1,320,000	2005	060095J80	205,000	2015	060095L20
1,275,000	2006	060095J98	155,000	2016	060095L38
1,235,000	2007	060095K21	155,000	2017	060095L46
1,190,000	2008	060095K39	155,000	2018	060095L53
1,140,000	2009	060095K47	155,000	2019	060095L61
570,000	2010	060095K54	155,000	2020	060095L79
210,000	2011	060095K62	155,000	2021	060095L87
210,000	2012	060095K70	155,000	2022	060095L95
210,000	2013	060095K88	155,000	2023	060095M29

It is expected that the Bonds will be available for delivery at DTC on or about June 10, 2004.

Principal of and interest on the Bonds will be payable in Clearing House Funds to DTC, or its nominee, as registered owner of the Bonds by US Bank National Association, Boston, Massachusetts, as paying agent (the "Paying Agent"). Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to Beneficial Owners (as hereinafter defined) will be the responsibility of such Participants and other nominees of Beneficial Owners. The City will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein.

OPTIONAL REDEMPTION PRIOR TO MATURITY

Bonds maturing on or before November 1, 2014 are not subject to optional redemption prior to their stated dates of maturity. Bonds maturing after November 1, 2014 are subject to redemption prior to their stated dates of maturity, at the option of the City, on and after November 1, 2014, as a whole or in part at

any time, in such order of maturity as the City, in its discretion, may determine at the respective redemption prices (expressed as percentages of the principal amount of Bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
November 1, 2014 and thereafter	100%

GENERAL PROVISIONS REGARDING REDEMPTION

Notice of Redemption

In the case of every redemption of the Bonds, the City shall cause notice of such redemption to be given to the registered owner of any Bonds designated for redemption in whole or in part, at his or her address as the same shall last appear upon the registration books kept by the Paying Agent by mailing a copy of the redemption notice by first class mail not less than thirty (30) days prior to the redemption date. Any notice mailed shall be conclusively presumed to have been duly given, whether or not the Bondholder actually receives notice. The failure of the City to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any Bond of any other owner.

Each notice of redemption shall specify the date fixed for redemption, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Bonds outstanding are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof (in denominations of \$5,000 or any integral multiple thereof) to be redeemed.

The City shall notify the Securities Depository (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein) in the same manner as the Bondholders, with a request that the Securities Depository notify its Participants who in turn notify the beneficial owners of such Bonds. Any failure on the part of the Securities Depository, or failure on the part of a nominee of a Beneficial Owner (having received notice from the City, a Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the redemption of such Bond.

Bonds Due and Payable on Redemption Date; Interest Ceases to Accrue

On any redemption date, the principal amount of each Bond to be redeemed, together with the premium, if any, and accrued interest thereon to such date, shall become due and payable. Funds shall be deposited with the Paying Agent to pay, and the Paying Agent is authorized and directed to apply such funds to the payment of the Bonds called for redemption, together with accrued interest thereon to the redemption date and redemption premium, if any. After such redemption date, notice having been given in the manner described above, then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds. From and after such date of redemption (such notice having been given), the Bonds to be redeemed shall not be deemed to be outstanding.

Cancellation

All Bonds that have been redeemed shall be canceled by the Paying Agent and either destroyed by the Paying Agent with counterparts of a certificate of destruction evidencing such destruction furnished by the Paying Agent to the City or returned to the City at its request.

Partial Redemption of Bonds

Bonds or portions of Bonds to be redeemed in part shall be selected by the City by lot or in such other manner as the City in its discretion may deem appropriate.

RECORD DATE; PAYMENT

The principal of the Bonds is payable upon surrender thereof at the principal Corporate Trust Office of the Paying Agent. Payment of the interest on the Bonds will be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof at the close of business on the fifteenth day of the month preceding each interest payment date for the Bonds, and if such day is not a regular business day of the Paying Agent the next day preceding which is a regular business day of the Paying Agent, by check, wire or draft mailed to each registered owner at such person's address as it appears on the registration books, or at another address as is furnished to the Paying Agent in writing by the owner. Interest that is not timely paid or provided for shall cease to be payable to the registered owner as of the regular record date and shall be payable to the registered owner at the close of business on a special record date to be fixed by the Paying Agent.

AUTHORIZATION AND PURPOSE

The Bonds are being issued pursuant to bond orders of the City Council adopted at its meetings held on August 25, 2003 and April 26, 2004 (the "Orders"). The Orders authorize the City to issue its general obligation bonds to provide funds for the projects that are being financed by Bonds. This authority is granted to the City by Title 30-A, Section 5772 of the Maine Revised Statutes, as amended; and by Article VI, Section 13 of the City's Charter and any necessary approval of the Commissioner of the State of Maine Department of Education.

The Projects

By its Order 03-275 adopted on August 25, 2003 and amended April 26, 2004 the Council authorized the City to issue its general obligation bonds to provide funds: in the amount of \$607,100 to finance vehicle replacement; in the amount of \$150,000 to finance a portion of the BACTS project; and in the amount of \$7,000,000 to finance a new Police Station (the "Projects"). A portion of the proceeds of the Bonds, in the consolidated amount of \$3,757,000, will be used to finance the entire amounts authorized for vehicle replacement and the BACTS project and the first \$3,000,000 portion of the amount authorized for the new Police Station. The remaining portion of authorized but unissued debt for the new Police Station is expected to be financed by the City in 2005.

In the event that any proceeds of the Bonds remain unspent upon completion of the Projects, or the City abandons any of the Projects, the City reserves the right to reallocate unspent proceeds to the costs of other qualified projects approved, or to be approved, by the City Council, or to apply unspent proceeds to the payment of debt service on the Bonds.

The Refunding Bonds

In 1994, the City issued \$11,155,000 of its 1994 General Obligation Refunding Bonds, dated January 1, 1994 (the "1994 Bonds"). The proceeds of the 1994 Bonds were used to refund the callable portions of the City's 1989 and 1990 General Obligation Bonds (the "1989 Bonds" or "1990 Bonds", respectively) and to pay certain costs related thereto. A portion of the 1989 Bonds included funds to finance a school project under the School Finance Act of 1985 (the "Act"), being Chapter 606 of Title 20-A of the Maine Revised Statutes, as amended, and the State of Maine, State Board of Education, Rules for Major Capital School Construction Projects (the "Rules") that is eligible for inclusion in the City's debt service

allocation for the purpose of calculating the State of Maine's debt service subsidy. The 1994 Bonds maturing after August 1, 2004 are subject to redemption prior to their stated dates of maturity, at the option of the City, on and after August 1, 2004, as a whole or in part at any time, in such order of maturity as the City, in its discretion, may determine at the redemption price (expressed as a percentage of the principal amount of Bonds to be redeemed) of 102%.

A portion of the proceeds of the Bonds, in the amount of \$5,470,000, are being issued to provide funds to refund, on a current basis, the entire remaining \$5,330,000 balance of the 1994 Bonds, call premium and associated costs of issuance (the "Refunding Portion"), as follows:

Refund 1994 Bonds	\$5,330,000
Call Premium	106,600
Costs of Issuance	31,852
Rounding	<u>1,548</u>
Refunding Bond Proceeds	\$5,470,000

The City achieved a Present Value savings of 3.2143% through the Refunding Portion of the Bonds.

AMORTIZATION OF THE BONDS

<u>FY end</u> <u>June 30,</u>	<u>Due</u> <u>Nov. 1,</u>	<u>Vehicle</u> <u>Replace</u>	<u>Police</u> <u>Station</u>	<u>BACTS</u> <u>Project</u>	<u>The</u> <u>Projects</u>	<u>1994</u> <u>Refunding</u>	<u>The</u> <u>Bonds</u>
2005	2004	\$51,000	\$150,000	\$11,000	\$212,000		\$212,000
2006	2005	51,000	150,000	9,000	210,000	\$1,110,000	1,320,000
2007	2006	51,000	150,000	9,000	210,000	1,065,000	1,275,000
2008	2007	51,000	150,000	9,000	210,000	1,025,000	1,235,000
2009	2008	51,000	150,000	9,000	210,000	980,000	1,190,000
2010	2009	51,000	150,000	9,000	210,000	930,000	1,140,000
2011	2010	51,000	150,000	9,000	210,000	360,000	570,000
2012	2011	50,000	150,000	10,000	210,000		210,000
2013	2012	50,000	150,000	10,000	210,000		210,000
2014	2013	50,000	150,000	10,000	210,000		210,000
2015	2014	50,000	150,000	10,000	210,000		210,000
2016	2015	50,000	150,000	5,000	205,000		205,000
2017	2016		150,000	5,000	155,000		155,000
2018	2017		150,000	5,000	155,000		155,000
2019	2018		150,000	5,000	155,000		155,000
2020	2019		150,000	5,000	155,000		155,000
2021	2020		150,000	5,000	155,000		155,000
2022	2021		150,000	5,000	155,000		155,000
2023	2022		150,000	5,000	155,000		155,000
2024	2023		150,000	5,000	155,000		155,000
Totals		\$607,000	\$3,000,000	\$150,000	\$3,757,000	\$5,470,000	\$9,227,000

SOURCE OF PAYMENT AND REMEDIES

The Bonds are general obligations of the City of Bangor, Maine and their payment is not limited to a particular fund or revenue source. Municipalities in the State of Maine (the "State" or "Maine") have the right to tax their inhabitants to pay municipal indebtedness. The City has power to levy ad valorem property taxes without limit as to rate or amount upon all the taxable property within its territorial limits to pay principal and interest on the Bonds, except to the extent that the City may enter into an agreement under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality, and except to the extent that the City establishes or has

established either municipal development districts as tax increment financing districts or municipal affordable housing development districts pursuant to Title 30-A, Chapters 206 & 207 of the Maine Revised Statutes, as amended, the captured tax increment of which may not be available for payment of debt service on the Bonds. The Finance Director has certified that a tax base sharing agreement does not now exist. The City has established certain tax increment financing districts and elected to retain a portion of the tax increment on the captured assessed value of the property in these districts to pay costs of the development project within the districts (see "CITY FINANCES - TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DEVELOPMENT DISTRICTS" section herein). Within the limits established by statute, the City has the right to designate additional municipal development districts or municipal affordable housing development districts pursuant to Chapter 206 of Title 30-A of the Maine Revised Statutes, as amended. There is no statutory provision for a lien on any portion of the tax levy to secure bonds or notes, or judgments thereon, in priority to other claims.

In the opinion of Bond Counsel, the City is subject to suit on the Bonds. The Maine statutes provide that executions against a town shall be issued against the personal property of the residents of that town and real estate within its boundaries, whether or not owned by the town. Only town real estate not used for public purposes, however, is subject to such execution. In addition, the Maine statutes provide that the personal property of the residents and the real estate within the boundaries of any town may be taken to pay any debt of the town. There has been no judicial determination as to whether the statutory remedy of taking property to satisfy debts or judgments is constitutional under current due process and equal protection standards and Bond Counsel expresses no opinion thereon. There has been no judicial determination as to whether statutory remedies available against towns are applicable to cities and Bond Counsel expresses no opinion thereon.

Funds to meet City expenses, including debt service, are not included in the tax levy to the extent they are expected to be met with other non-tax revenues. Amounts necessary to repay sums borrowed temporarily in anticipation of bonds or grants are similarly excluded because they would normally be expected to be paid from the anticipated bond proceeds or grants. Enforcement of a claim for payment of principal or interest on bonds or notes would be subject to the applicable provisions of federal bankruptcy laws and to the provisions of statutes, if any, hereafter enacted by the Congress or the State Legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. The Bonds are not guaranteed by the State of Maine.

BOND INSURANCE

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by the City as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-eight other states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and

Singapore. The Insurer has a license application pending with the State of Wyoming, the only state in which it is not currently licensed.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation (“XL Capital Ltd”). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. (“London”), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. (“XL Re”) acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd (“XLFA”), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer’s obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2003, XLFA had total assets, liabilities, redeemable preferred shares and shareholders’ equity of \$831,762,000, \$401,123,000, \$39,000,000 and \$391,639,000, respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA’s insurance financial strength is rated “Aaa” by Moody’s and “AAA” by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of “AAA” from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd (“XLI”), a Bermuda company and one of the world’s leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best’s rating of “A+” (Negative Outlook), XLI’s insurance financial strength rating is “Aa2” by Moody’s, “AA-” by Standard & Poor’s and “AA” by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the holders of the Bonds will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the holders of the Bonds.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Insurer

Based on the audited statutory financial statements for XLCA as of December 31, 2002 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$180,993,189, total liabilities of \$58,685,217 and total capital and surplus of \$122,307,972 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP"). Based on the unaudited statutory financial statements for XLCA as of December 31, 2003 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$329,701,823, total liabilities of \$121,635,535 and total capital and surplus of \$208,066,288 determined in accordance with SAP.

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

TAX MATTERS

The Bonds

In the opinion of Pierce Atwood, of Portland, Maine, Bond Counsel, interest payable on the Bonds is not subject to Maine income taxes imposed upon individuals. Under existing statutes, regulations and court decisions interest on the Bonds is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds will not be treated as a preference item in calculating alternative minimum taxable income of individuals; however, interest on the Bonds will be includable in the adjusted net book income or adjusted current earnings of a corporation for purposes of calculation of the alternative minimum tax imposed upon corporations and will be taken into account in the computation of the foreign branch profits tax.

Bond Counsel's opinion will state that the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding use, expenditure and investment of the proceeds of the Bonds and the timely payment of certain investment earnings to the U.S. Treasury that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income for federal income tax purposes pursuant to Section 103 of the Code. Noncompliance with such requirements may cause interest on the Bonds to be included in the gross income of the owner thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

The opinion will further state that Bond Counsel has examined the Arbitrage and Use of Proceeds Certificate and the General Certificate of the Finance Director of the City (collectively the "Tax Certificates") delivered concurrently with the Bonds which will contain provisions and procedures regarding compliance with the requirements of the Code. The City, in executing the Tax Certificates, will certify to the effect that the City will comply with the provisions and procedures set forth in the Tax Certificates and do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall not be included in the gross income of the owner thereof for federal income tax purposes. In rendering its opinion Bond Counsel will rely upon the representations of the City set forth in the Tax Certificates and assume that the City will comply with the provisions and procedures set forth in the Tax Certificates.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and is treated as "disqualified income" for purposes of determining whether an individual is

eligible for the earned income tax credit. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The City will designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Original Issue Discount/Premium

For federal income tax purposes, original issue discount with respect to a bond is equal to the excess, if any, of the stated redemption price at maturity of such bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a bond in accordance with Section 1272 of the Code. Purchasers of the Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is “bond premium.” For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser’s adjusted tax basis. Bond purchasers should consult their own tax advisers with respect to the tax consequences of bond premium.

Bond Counsel will not express an opinion regarding the treatment of original issue discount or bond premium for federal income tax purposes.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York City, NY will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be used for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-

U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchase of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent to vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a

successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

DTC Practices

The City can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

RATINGS

The City has applied to Moody's Investors Service ("Moody's") and Standard & Poor's, Public Finance Ratings ("S&P") for ratings on the Bonds. The City has furnished the rating agencies certain information and materials, some of which may not have been included in this Official Statement. The ratings, if obtained, will reflect only the view of Moody's or S&P at the time such rating is assigned and will be subject to revision or withdrawal, which could affect the market price of the Bonds. Moody's or S&P should be contacted directly for its rating on the Bonds and Notes and their explanation of such rating.

CONTINUING DISCLOSURE

In order to assist the underwriter in complying with the Securities Exchange Commission's Rule 15c2-12 (the "Rule"), the City will covenant for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the Rule by not later than 270 days after the end of each fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a "Continuing Disclosure Certificate" (the "Certificate"), the proposed form of which is provided in APPENDIX D. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The City has never failed to comply in all material respects with any previous undertakings to provide financial information or notices of material events in accordance with the Rule.

FINANCIAL ADVISOR

Moors & Cabot, Inc. has acted as Financial Advisor to the City with respect to the issuance of the Bonds pursuant to Municipal Securities Rulemaking Board Rule G-23. Moors & Cabot, Inc. does not intend to submit its bid or participate in an underwriting syndicate for the public bidding of the Bonds.

CUSIP IDENTIFICATION NUMBERS

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds will be paid for by the City provided, however, that the City assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers.

STATUTORY REFERENCES

All quotations from and summaries and explanations of laws herein do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

CONDITIONS PRECEDENT TO DELIVERY

The following, among other things, are conditions precedent to the delivery of the Bonds to the original purchasers thereof.

No Litigation

Upon delivery of the Bonds, the City shall deliver or cause to be delivered a certificate of the Finance Director, and attested to by the City Clerk, dated the date of delivery, to the effect that there is no litigation pending or, to the knowledge of such official, threatened, affecting the validity of the Bonds or the power of the City to levy and collect taxes to pay them, and that neither the corporate existence nor boundaries of the City, nor the title of any of said officers to their respective offices, is being contested.

Approval of Legality

The legality of the Bonds will be approved by Pierce Atwood, of Portland, Maine, Bond Counsel. The unqualified approving opinion of such counsel with respect to the Bonds will be delivered at the time of original delivery of the Bonds and a copy of the opinion will be provided to the original purchasers. Bond Counsel are not passing upon and do not assume responsibility for the accuracy or adequacy of the statements made in this Official Statement (other than matters expressly set forth as their opinion) and make no representations that they have independently verified the same. See also "PROPOSED FORM OF LEGAL OPINION" in APPENDIX C herein.

Certificate With Respect to Official Statement

At the time of the original delivery of and payment for the Bonds, the City will deliver a certificate of the Finance Director addressed to the original purchasers of the Bonds, to the effect that she has examined this Official Statement and the financial and other data contained therein and that, to the best of her knowledge and belief, both as of its date and as of the date of delivery of the Bonds, the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, subject to the condition that while information in the Official Statement obtained from sources other than the City is not guaranteed as to accuracy, completeness or fairness, she has no reason to believe that such information is materially inaccurate or misleading.

Certificate With Respect to Debt Limits

At the time of the original delivery of and payment for the Bonds, the City will deliver a certificate of the Finance Director which certifies that the City has not exceeded its debt limitations and that issuance of the Bonds will not cause the City to exceed such debt limit.

Certificate With Respect to Shared Valuation

At the time of the original delivery of and payment for the Bonds, the City will deliver a certificate of the Finance Director which certifies that no agreements under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality, now exist.

CITY OF BANGOR

GENERAL

The City of Bangor is located in the south-central section of the County of Penobscot, in the eastern section of the State of Maine. The City is approximately 235 miles north-northeast of Boston, Massachusetts, 140 miles northeast of Portland, Maine, the State's largest city, and approximately 76 miles northeast of Augusta, the State's capital. The City is the hub of an 11-municipality employment and commercial center as well as the commercial and cultural center for more than a third of the State's population being situated in eastern and northern Maine. Bangor is the county seat of Penobscot County and is the third largest of Maine's 22 cities.

Bangor is situated on the western shore of the Penobscot River, which forms its southeastern border separating it from the City of Brewer across the river. The Town of Veazie is contiguous to Bangor on its east. The Town of Orono, home of the main campus for the University of Maine System, forms the City's northeastern border. The Town of Glenburn borders Bangor on the north, the Town of Hermon on the west and the Town of Hampden forms its southern border. Convenient access to Bangor is provided with seven exits from U.S. Interstate Route 95, which bisects the City diagonally through its center. U.S. Routes 1A, 2 and State Routes 15, 100, 221 and 222 all intersect the City from various directions. The Bangor International Airport, located in the City, provides both domestic and international air service for the entire region. See also "CITY OF BANGOR – BANGOR MSA" herein.

The area embracing Bangor was first noted by Admiral Samuel de Champlain's journal in 1604. A fort was erected in the area previous to 1656 by the French and named Norombega. The area was then settled by the English, in 1769, known as Kenduskeag Plantation until 1787 and as Sunbury until 1791. Bangor incorporated as a town on February 25, 1791 and as the City on February 12, 1834, the name being derived from a hymn entitled "Bangor" conferred by Rev. Seth Noble, an early settler. Once the world's leading lumber port, during the 1850's; and then second only to Chicago in the 1860's to 1870's, the City has evolved to become a major trade, distribution, service and commercial center for the eastern and northern Maine region. The City is the home of Husson College, Eastern Maine Technical College, the Bass Park Complex and four medical centers including St. Joseph's Hospital and the Eastern Maine Medical Center. Bangor has four local television stations, 12 radio stations and is the home of the fourth largest morning newspaper in New England, the "Bangor Daily News". The City enjoys numerous parks, monuments, historical sites, has several hotels and numerous restaurants.

The City of Bangor is an urban, commercial, industrial and residential community with some rural characteristics. The land area of the City includes tracts of forest and farmlands, open space and riverfront areas, with a developed "downtown". Located on various parts of the City's perimeter the Bangor Mall, Airport Mall, Broadway Shopping Center and Bangor Mini Malls have established Bangor as the regional retail hub of the eight-county eastern Maine retail market. The City is comprised of residential, local business, industrial, commercial and resource protection zones, totaling 34.59 square miles.

GOVERNMENT

The City operates under a charter initially adopted as Chapter 54 of the Private and Special Laws of Maine (1931), as amended and supplemented, most recently on November 6, 2001 (the "Charter"). The Charter provides for a Council-Manager form of government with a nine-member City Council who are elected from the registered voters of the entire City at-large for three-year staggered terms. The Charter grants to the City Council all powers to enact, amend, or repeal rules, ordinances and resolutions relating to the City's property, affairs and government; to preserve the public peace, health and safety; to establish

personnel policies; to give effect to any vote of the City; and to authorize the issuance of debt. The entire Council adopts an annual budget and provides for an annual audit.

The City Manager is the chief administrative officer of the City.

MUNICIPAL SERVICES

The City provides general governmental services for the territory within its boundaries, including police and fire protection, highways, streets and sidewalks, parks, recreation and riverfront areas. Public education is provided for grades Kindergarten ("K") through 12. The City operates its own sewer system.

Water service is provided by the Bangor Water District, a quasi-municipal entity whose operations and direct obligations are not part of the City.

Public Safety

The Police Department is staffed by employees who include one Chief of Police, one Deputy Police Chief 12 Sergeants, 15 Detectives and approximately 42 Police Officers. The Police Department operates from the downtown Police Station. The Police Department operates 42 vehicles, which are in good repair.

The Fire Department is staffed by employees who include one Fire Chief, four Assistant Chiefs, six Captains, 10 Lieutenants, two Public Education Officers, two Fire Inspectors and approximately 68 firefighters. The Fire Department operates from three fire stations and maintains approximately 25 vehicles or pieces of equipment, all of which are in good repair. Emergency Medical Service is provided by the Fire Department.

Public Works

The Public Works Department provides for a number of services including highway maintenance and recycling. The Department is staffed with one Public Works Director and approximately 75 full-time employees. The Department utilizes approximately 80 vehicles, which are in good repair.

On January 1, 1988 the City began transporting solid waste to the Penobscot Energy Recovery Company's ("PERC") waste-to-energy facility in Orrington. The City currently pays a basic tipping fee of \$59.17/ton of solid waste disposed. The tipping fee is adjusted quarterly based upon a contractual formula. The City's Assistant City Manager is one of the nine members of a Municipal Review Committee (the "Review Committee") elected from the 130 charter communities who send waste to PERC (the "Charter Communities"). The Review Committee oversees PERC's management in an advisory capacity to ensure that the Sending Communities' interests are protected. The City is currently involved in the ownership of the PERC facility along with other Charter Communities, which Charter Communities currently own approximately 21% of the limited partnership shares of the facility.

Public Education

The City operates its educational program for grades K through 12 under its own supervision. Article II-A of the City's Charter, as amended, provides that the Department of Education for the City be administered by a Superintending School Committee (the "School Committee") comprised of seven members, who are elected by the voters of the City at-large for three-year staggered terms. The School Committee performs all duties and functions in regard to the care and management of the public schools of the City. The School Committee prepares and submits its budget to the City Manager, who includes it in the budget process. See also "CITY FINANCES - BUDGETARY PROCESS" section herein. The School's staff consists of a Superintendent, one Director of Pupil Services, nine full-time principals, approximately 368 full-time equivalent teachers and various other professional and non-professional staff.

The City's schools are listed below:

School	Grade	Estimated Capacity	Enrollment ⁽¹⁾
Abraham Lincoln	K - 3	340	204
Downeast	K - 3	400	260
Fourteenth Street	K - 3	200	152
Fruit Street	K - 3	385	287
Vine Street	K - 3	385	213
Fairmount	4 - 5	430	331
Mary Snow	4 - 5	410	289
James F. Doughty	6 - 8	630	513
William S. Cohen	6 - 8	640	525
Bangor High School	9 - 12	1,500	1,501

SOURCE: (1) "Previous Year Pupils" from *Maine Educational Directory, School Year 2002-2003*, State of Maine, Department of Education.

The following is the trend of the City's school enrollments over the last ten years:

April 1,	Grades					Total Enrollment
	K-3	4-5	6-8	9-12	Other	
2003	1,039	581	943	1,200	256	4,019
2002	1,149	625	899	1,214	246	4,133
2001	1,155	622	915	1,166	247	4,105
2000	1,274	633	918	1,135	244	4,204
1999	1,318	653	924	1,126	233	4,254
1998	1,315	660	929	1,152	232	4,288
1997	1,381	651	933	1,169	245	4,379
1996	1,361	617	892	1,056	247	4,173
1995	1,433	640	932	1,054	167	4,226
1994	1,387	676	938	965	173	4,139

SOURCE: State of Maine, Department of Education, "April 1 Census of Students Educated at Public Expense" and the City of Bangor School Department.

NOTE: "Other" includes: Elementary Special, Pre-Kindergarten, Secondary Special and Post-Graduate Students.

The City is a member of the United Technologies Center, Region #4 ("Region #4"), an applied technology region (a "Region"). Applied technology regions in Maine are quasi-municipal corporations established by the Legislature for the delivery of applied technology programs that are comprised of two or more school administrative units and governed by a cooperative board. Each school administrative unit is responsible for its proportionate share of the Region's operating expenses, including debt repayment, which is included in the respective unit's annual assessment to the Region. Region #4's territory encompasses three cities, including Bangor, 11 towns, one plantation, four School Administrative Districts ("SADs") and one Community School District ("CSD"). The City currently sends an average of 78 students to Region #4, or 21.3% of the 412 total current student enrollment. The City is responsible for its proportionate share of Region #4's operating expenses, including debt service, which is assessed to the City annually. The City's share of Region #4's 2003/2004 assessment is \$502,264 or 23.74% of Region #4's 2003/2004 total assessments of \$2,115,716.

Along with ten school administrative units in the region, the City of Bangor participates in the Southern Penobscot Regional Program for Exceptional Children. In this program, the following specialized classification of educational curriculum (and its location) are offered at: "Hearing Impaired" (Bangor); "Multiple Handicapped" (Bangor); "Severe Behavioral/Emotionally Disturbed" (Old Town); and "Moderate to Severe Development Disability" (Brewer).

In addition to providing education to all students who are residents of the City of Bangor, the School Department also provides education for grades 9 through 12 for certain contiguous communities or districts (the "school administrative unit") which do not have a high school. The school administrative unit reimburses the City on a tuition basis, as set annually by the State, for each student who elects to attend Bangor High School. There are approximately 90 tuition students attending Bangor High School, sent from the towns of Amherst, Bradley, Dedham, Glenburn, Holden, Orrington and Veazie.

Sewer Department

The Sewer Department is established as an Enterprise Activity with the intent that the department provides services on a continuing basis financed entirely through user charges. As of June 30, 2003 total retained earnings for the Sewer Utility Fund was \$19.98 million and net assets were \$34.8 million for that period. Sewer rates have remained constant since 1996, and the City intends to implement any necessary increases to continue to provide sufficient revenue to finance its projects entirely on a user fee basis. One superintendent and approximately 24 employees staff the Sewer Department. The Sewer Department maintains one plant, five pumping stations and approximately 132 miles of 8" to 72" sewer lines.

Bangor International Airport

The City owns the land encompassing the Bangor International Airport ("BIA"), the domestic and international terminal building and several properties that are leased to various commercial/industrial concerns. Through BIA, the City serves in the capacity of a fixed-base operator, in that it provides certain operating/maintenance functions as well as serves as a fuel vendor for aircraft. The BIA is unique as a municipal facility in that the airport services domestic carriers but also caters to numerous international carriers for purchase of fuel and passenger handling, thus diversifying its revenue base to support its operations. At June 30, 2003 fiscal year BIA's retained earnings closed at \$39.86 million and net assets were \$130.2 million for that period.

The City has expanded the terminals at BIA by construction of 58,055 square feet of additional space and renovations to 48,928 square feet of existing space in the international and domestic arrivals buildings, including gates, office space, customs area, waiting and concessions areas. BIA is also the home of the 101st Air National Guard Refueling Wing (the "ANG"). The relationship between BIA and the Guard is formally expressed through a contractual agreement under which the ANG provides BIA with all crash and fire rescue services at the airport and shares in the cost of snow plowing. The ANG has, in the past, shared in the cost of several capital projects at the airport on a non-contractual basis, from time to time. The City expects that this voluntary contribution will continue in the future.

Pickering Square Parking Garage

The City owns a 500-car municipal parking garage to enhance the downtown commercial and retail district. The parking garage, opened in September 1989, was established by the City as an Enterprise Activity, with the City's intent that the facility provide services on a continuing basis financed entirely through user charges. It was anticipated that the garage would require General Fund subsidy, in declining amounts, through its first 15 years of operation. In actuality, the Parking Fund experienced a historical record of, albeit declining, net operating losses since its inception 13 years ago. In 2002, the City

completed substantial improvements to the parking facility. This resulted in an increased subsidy from the City's General Fund and, due to the inactivity inherent to the construction, expenses declined. The City expects that on an ongoing basis in future years the facility will report positive operating experience that is expected to reduce future annual General Fund subsidies.

Bass Park Complex

The Bass Park Complex ("Bass Park") encompasses the Bangor Raceway, Bangor State Fair, Bangor Auditorium and the Bangor Civic Center. Bass Park is established as an Enterprise Activity with the intent of the City that services provided are financed primarily through user charges. However, in recent years General fund subsidies have been required. Plans are currently being developed to replace the facility and alter its financial structure to more closely reflect the regional use of the facility.

Park Woods

The City acquired a 60-unit housing complex from the federal government in 1995 ("Park Woods"). Park Woods offers safe, affordable transitional housing and case management services to homeless individuals and families. The majority of units are leased directly from the City to tenants through the City's Health and Welfare Department. The remaining units are leased to social service agencies that are responsible for remitting lease payments to the City. The City has no indebtedness for Park Woods and has established its operations as an Enterprise Fund, reflecting the City's intent to finance the facility primarily through user charges.

Municipal Golf Course

The City owns and operates the Municipal Golf Course (the "Golf Course") an 27-hole championship course. The facility includes a clubhouse, snack bar and locker room. Two pros and three full time employees staff the course. The Golf Course is established as an Enterprise Activity with the intent that the Golf Course provide service on a continuing basis, financed entirely through user charges. The Golf Course's net operating income at June 30, 2003 fiscal year end was \$30,788.

Bangor Public Library

The Bangor Public Library (the "Library") was established in 1883 as a union between the Bangor Mechanic Association and the Trustees of the Samuel F. Hersey Fund (administered by the City). The Library is a non-profit corporation governed by a Board of Managers and a Board of Trustees consisting of nine members. Four of the board's members are the officers of the Bangor Mechanic Association, four are appointed as Trustees of the Hersey Fund by the Bangor City Council and the ninth member is the chief financial officer of the City.

The Bangor Public Library (the "Library") is in a 67,000 square foot building with a Greco-Roman facade designed by Peabody and Stearns of Boston. The building opened in 1913 and with a recent \$8.5 million expansion (of which the City contributed \$2.5 million toward the cost of the project) designed by Robert A.M. Stern Architects of New York, has added 27,000 square feet to the building, reopening in 1998. This more than doubled the Children's Department and allowed for opening the book stacks to the public. The renovation and expansion added an entrance at sidewalk level, an elevator to all three floors of the Library and modern HVAC, plumbing and wiring systems. The new addition includes an auditorium that can seat 100 people. The Library houses over 500,000 volumes of books, periodicals, government documents and other materials, has over 44,000 registered borrowers, lends over 22,000 volumes per year to other libraries throughout the nation. The Library is staffed by a director and approximately 20 full-time and ten part-time employees. Approximately 55% of its funding is derived from the City, 35% from endowment funds and 10% from the State Library.

LABOR RELATIONS

The City employs approximately 1,044 full-time employees, approximately 558 of who are employed by the School Department. The following lists the various bargaining units that are represented by a union, and the status of its current contract. City Employees not included in the below table are not represented by unions. The various contracts for employees represented by unions are effective and expire as follows:

Union ⁽¹⁾	Approximate # Employees	Bargaining Unit	Date of Contract	
			Effective	Expiration ⁽²⁾
Teamsters	14	Police Command Staff	July 1, 2001	June 30, 2004
Teamsters	45	Police Officers	July 1, 2001	June 30, 2004
Teamsters	14	Police Support Staff	July 1, 2001	June 30, 2004
IAFF	96	Firefighters	July 1, 2002	June 30, 2005
BFPE-AFT	13	Motor Pool	July 1, 2001	June 30, 2004
AFSCME	5	Airport Aircraft Mechanics	July 1, 2001	June 30, 2004
AFSCME	6	Aircraft Weather Observers	July 1, 2002	June 30, 2005
AFSCME	32	Ramp Supervisors & Attendants	July 1, 2002	June 30, 2005
AFSCME	32	Air. Pass. Serv. & Sec. Screen.	July 1, 2001	June 30, 2004
AFSCME	15	Airfield & Building Maintenance	July 1, 2001	June 30, 2004
AFSCME	56	Public Works	July 1, 2001	June 30, 2004
MEA	330	School Teachers	Sept. 1, 2002	Aug. 31, 2005
MEA	70	School Instructional Ass'ts	Sept. 1, 2002	Aug. 31, 2005
AFL/CIO	20	School Administrators	July 1, 2001	June 30, 2004
MEA	100	School Support Staff	July 1, 2002	June 30, 2005

NOTE: ⁽¹⁾ "AFSCME" indicates the American Federation of State, County and Municipal Employees; "IAFF" indicates the International Association of Firefighters. All AFSCME and IAFF units are affiliated with the American Federation of Labor & Congress of Industrial Organizations ("AFL-CIO"), as separate bargaining units. "BFPE" indicates the Bangor Federation of Public Employees, division of the American Federation of Teachers, affiliated with the AFL-CIO. "MEA" indicates the Maine Education Association of which the various components of the Bangor Education Association ("BEA") are affiliated, as separate bargaining units. "Teamsters" indicates the International Brotherhood of Teamsters, which are affiliated, as separate bargaining units.

⁽²⁾ Although contracts that expire on June 30, 2004 have not, as yet, been renegotiated the City has provided in its budget for amounts that it expects that the City would incur.

BUILDING PERMITS

Calendar Year	Permits			Est. Cost of Construction
	Residential	Non-Resid't'l	Total	
2003	366	156	522	\$34,096,000
2002	277	199	476	30,390,000
2001	248	198	446	25,466,900
2000	296	191	487	28,526,800
1999	269	220	489	32,024,600
1998	284	223	507	41,134,300
1997	303	222	525	32,335,400
1996	283	192	475	22,787,600
1995	279	198	477	20,595,700
1994	289	274	563	25,087,700
1993	371	253	624	16,687,100

ECONOMIC CHARACTERISTICS

		-----% Change-----			
Population		City of Bangor	City	State	USA
1960		38,912	23.3	6.1	18.5
1970		33,168	(14.8)	2.4	13.4
1980		31,643	(4.6)	13.4	11.4
1990		33,181	4.9	9.2	9.8
2000		31,473	(5.1)	3.8	13.2

Population Characteristics		City of Bangor	Penobscot County	State of Maine	USA
Median age (years)		36.1	37.2	38.6	35.3
% school age		15.5%	17.5%	18.1%	18.9%
% working age		64.7%	64.1%	62.0%	61.9%
% 65 and over		14.1%	13.1%	14.4%	12.4%
Persons/household		2.12	2.38	2.39	2.59

Income		City of Bangor	Penobscot County	State of Maine	USA
Median family income		\$42,047	\$42,206	\$45,179	\$50,046
% below poverty level		16.6%	13.7%	10.9%	12.4%
Per capita income		\$19,295	\$17,801	\$19,533	\$21,587

Housing		City of Bangor	Penobscot County	State of Maine	USA
% owner occupied		35.0%	46.4%	49.2%	52.3%
% Built before 1939		45.0%	28.3%	29.1%	15.0%
% Built since 1990		6.5%	13.8%	14.6%	17.0%
Owner occupied med. value		\$87,300	\$82,400	\$98,700	\$119,600
Median gross rent		\$475	\$468	\$497	\$602
Occupied housing units		13,713	58,096	518,200	-

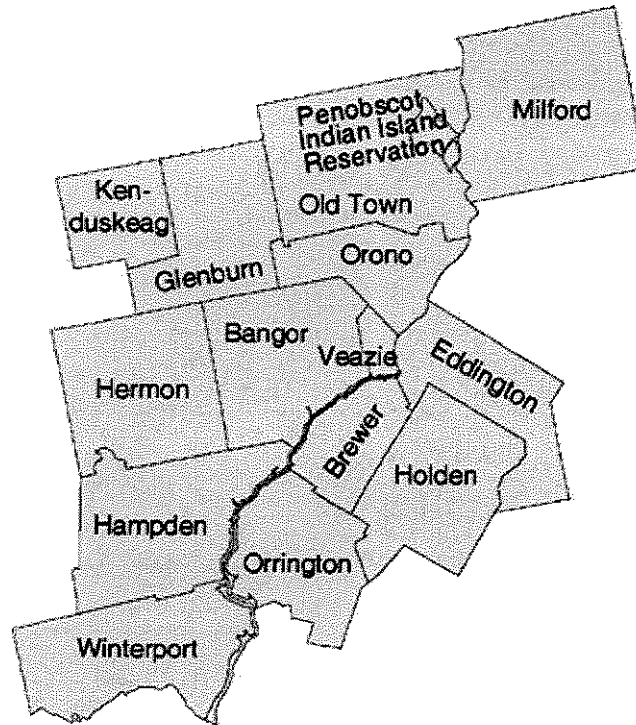
SOURCE: 2000 census, U.S. Department of Commerce, Bureau of the Census.

Unemployment		City of Bangor	Penobscot County	State of Maine	USA
2003		3.4%	6.1%	5.1%	6.0%
2002		3.1	4.5	4.4	5.8
2001		3.0	4.1	4.0	4.8
2000		2.8	3.7	3.5	4.0
1999		3.0	4.3	4.1	4.2
1998		3.6	4.5	4.4	4.5
1997		4.8	5.9	5.4	4.9
1996		4.4	5.3	5.1	5.1
1995		5.5	6.1	5.7	5.6
1994		7.4	7.7	7.4	6.1

SOURCE: State of Maine, Department of Labor, Division of Economic Analysis and Research.

BANGOR METROPOLITAN STATISTICAL AREA

The U.S. Department of Commerce, Bureau of the Census defines a metropolitan statistical area ("MSA") as an area that includes at least one city with 50,000 or more inhabitants, or a Census Bureau-defined urbanized area (of at least 50,000 inhabitants) and a total metropolitan population of at least 75,000 (in New England). Additional cities and towns are included in the MSA if they meet specified requirements of commuting to the central area and other selected requirements of metropolitan character (such as population density and percent urban). An MSA is also considered a labor market area. The following map displays the 14 cities or towns and one reservation that comprise the Bangor MSA:



SOURCE: Maine Department of Labor, Labor Market Information Services

Transportation Center

The City of Bangor is the major transportation and distribution center for the eight northeastern counties of the State of Maine. The Bangor International Airport has scheduled domestic air service offered by five airlines, American Eagle, Continental Express, Delta Connection, Northwest AirlinK and USAirways Express with over 50 daily flights to/from the market. In addition, the Airport serves as a transit and diversion Airport for numerous domestic and international carriers.. The Bangor and Aroostook and Maine Central railroads offer rail freight connections from Bangor. U.S. Interstate Route 95 facilitates the shipment of freight by truck. Greyhound Travel Services and Concord Trailways offer nationwide bus transportation and package delivery from their Bangor terminals.

The FAA occupied its automated Flight Service Station at the BIA facility in 1987, employing approximately 50 technicians. Also, the Maine National Guard Bureau has constructed a \$23 million reserve and guard training center at BIA. The project houses Army/Navy Reserve Buildings, a Consolidated Armory and a variety of training buildings. Hundreds of trainees come into the area for training on regular year-round cycle.

Commuter Patterns

The following table displays the place of employment for the City's residents, residential component of the City's workforce and the respective component of its workers as a percentage of their local workforce:

Residents of Bangor who work in:	Number of Workers	% of Bangor's Workers	Commuters to Bangor who live in:	Number of Workers	% of Bangor's Workforce
Bangor	11,109	72.45%	Bangor	11,109	32.48%
Brewer	977	6.37	Brewer	2389	6.99
Orono	807	5.26	Hampden	1824	5.33
Hampden	300	1.96	Hermon	1268	3.71
Hermon	244	1.59	Glenburn	1229	3.59
Old Town	220	1.43	Orono	1201	3.51
Millinocket	119	0.78	Old Town	1095	3.20
Bucksport	96	0.63	Orrington	925	2.70
Belfast	92	0.60	Holden	775	2.27
Holden	89	0.58	Winterport	716	2.09
Ellsworth	82	0.53	Levant\	613	1.79
Glenburn	82	0.53	Corinth	590	1.73
Orrington	61	0.40	Carmel	567	1.66
East Millinocket	54	0.35	Eddington	549	1.61
Veazie	48	0.31	Milford	488	1.43
All Other	954	6.22	All Other	8,861	25.91
	15,334	100.00%		34,199	100.00%

SOURCE: State of Maine, Department of Labor, Labor Market Information Services; U.S. Department of Commerce, Bureau of Census, 2000 Census.

Commercial Center

The City is a center for retail, wholesale, distribution, transportation, banking, legal, medical, recreational, and other major services for its own base market, plus a large area of the State encompassing its eight eastern and northern counties. The City also serves as a more infrequent retail/service center for a Canadian population from the provinces of New Brunswick, Nova Scotia and Quebec. A major shopping area of over 1.3 million square feet is anchored by the Bangor Mall. Several other malls are located throughout the City's area and its downtown area provides a blend of specialty shops, restaurants and consumer services.

Hubbed by the Bangor MSA, the City's *Primary Market* is an area within 20 miles of the City center made up of 28 communities, over 100,000 people, approximately 38,000 households, and includes the 11 communities of the *Greater Bangor Area*. Residents of the Primary Market Area utilize the Bangor Center for their regular shopping and services on a daily or weekly basis and as an employment center. The Bangor *Secondary Market* is a region covering more than six counties in eastern and northern Maine, comprised of approximately 387,000 people and over 120,000 households which use the Bangor Center for major shopping and services many times annually. The Bangor *Tertiary Market* encompasses the Canadian Maritime Provinces and eastern Quebec Province, with approximately 2.96 million people, over 870,000 households which utilize the Bangor region as a distribution and transportation point, and for selected shopping and services on a special-trip basis, such as during holidays, vacations and other occasions.

The following table displays the growth in certain sectors of the City's economy, as measured by retail sales, by product group and by consumer sales:

Retail Sales by Product Group and Consumer Sales (000)

	Business/ Operating	Building Supply	Food Store	General Mdse.	Other Retail	Auto/ Transp.	Rest. & Lodging	Group Total	Consumer Sales
2003	\$105,333	\$146,702	\$49,588	\$289,785	\$115,032	\$314,694	\$130,928	\$1,152,063	\$1,046,730
2002	103,878	140,659	53,840	320,191	107,877	309,714	140,928	1,177,085	1,073,207
2001	87,946	126,439	47,755	273,234	97,235	282,690	124,734	1,040,032	952,086
2000	116,240	127,467	55,432	264,296	94,533	268,771	124,614	1,051,354	935,114
1999	93,351	99,329	53,944	272,715	91,425	258,150	123,221	992,135	898,784
1998	82,577	87,030	51,084	260,329	63,821	219,795	113,559	878,198	795,620
1997	83,900	95,400	49,651	214,536	66,439	203,678	102,695	816,298	732,397
1996	77,269	96,617	46,403	211,845	67,065	187,359	98,407	784,965	707,697
1995	65,534	78,662	43,274	206,517	65,680	176,852	95,676	731,196	666,662
1994	57,190	72,534	43,159	212,251	64,332	181,622	94,426	725,513	668,323
1993	61,350	72,564	42,277	216,744	64,607	165,290	89,462	712,294	650,944
1992	58,909	74,861	42,740	198,583	69,449	138,523	87,323	670,388	611,480

SOURCE: State of Maine, Department of Taxation, Sales Tax Section. The State Department of Taxation cautions that the 2003 statistics are correcting for an overstatement in 2002 on a statewide basis.

Employment Center

The City is the hub of retail, wholesale, distribution, transportation, banking, legal, medical, recreational, and other major services for its own base market, plus a large area of the State. The Greater Bangor area includes 11 contiguous communities surrounding the City. The major employers of the City or of the Bangor MSA are:

Major Employers	City or Town	Business	Employees
Eastern Maine Medical Center	Bangor	Health Care Center	2,800
Bangor Mall	Bangor	Shopping Complex	2,700
University of Maine	Orono	University	2,241
City of Bangor	Bangor	Municipal Government	1,520
St. Joseph Hospital	Bangor	Health Care Center	830
Webber Energy Co.	Bangor	Petroleum Distributor	750
Shop & Save Supermarkets	Bangor	Grocery Chain	670
Microdyne	Orono	Telephone Call Center	600
General Electric Corp.	Bangor	Turbine Manufacturer	540
Acadia Hospital	Bangor	Mental Health Center	410
Community Health Services	Bangor	Social Services	408
United States Postal Service	Bangor	Postal Service	350
BMHI	Bangor	Mental Health Center	350
Irving Oil Co.	Bangor	Petroleum Distributor	350
Georgia Pacific Corp.	Old Town	Paper Producer	350
Bangor Publishing Co.	Bangor	Newspaper Publisher	336
R.H. Foster	Hampden	Petroleum Distributor	318
Shaw's Supermarket	Bangor	Grocery Chain	300
Verizon	Bangor	Communications Company	300

SOURCE: City of Bangor, Department of Community and Economic Development.

HIGHER EDUCATION AND HEALTHCARE

Post-secondary School Education

Seven post-secondary schools are located in the Greater Bangor Area, six of which are located within the City. These schools and their location, by approximate enrollment, are:

Location	School	Enrollment ⁽¹⁾	Faculty ⁽¹⁾⁽²⁾
Orono	University of Maine	11,135	679
Bangor	Eastern Maine Technical College	1,790	142
Bangor	Husson College	2,005	71
Bangor	University College of Bangor, campus of UMA	1,000 ⁽³⁾	73
Bangor	New England School of Communication	204	28
Bangor	Beal College	357	17
Bangor	Bangor Theological Seminary	123	26

NOTE: ⁽¹⁾ Source, 2004 Peterson's[®], a part of The Thompson Corporation.

⁽²⁾ Includes full and part-time.

⁽³⁾ Estimate.

Healthcare

Acadia Hospital has a 100-bed chemical dependency/psychiatric hospital at the former Taylor Hospital site on Stillwater Avenue, near U.S. Interstate Route 95. The hospital provides mental health and addiction medicine services offering short-term, acute care, with approximately 400 personnel. The **Bangor Mental Health Institute** ("BMHI"), employing approximately 580 personnel is one of two State-operated regional mental health care facilities. The facility has 355 beds and offers complete resident and out-patient services. **Eastern Maine Medical Center**, a component of **Eastern Maine Healthcare**, is the second largest medical center in the State, with 436 beds and over 2,000 employees. The center offers intensive care for newborns, children and adults; advanced cancer care; cardiac surgical treatment; and is the location of the Ronald McDonald House of Maine. The **Maine Veterans' Homes**, established by the State legislature to provide support and care for honorably discharged veterans, has 120 beds and employs approximately 150 personnel. **St. Joseph Hospital**, with 130 beds and approximately 800 personnel, provides business and community wellness programs; walk-in physician emergency care; and has a 15-bed geriatric unit.

SOURCE: City of Bangor, Department of Community and Economic Development.

MSA ECONOMIC CHARACTERISTICS

Population	Bangor MSA	% Change		
		MSA	State	USA
1960	83,993	-	-	-
1970	81,760	(2.66)%	2.4%	13.4%
1980	85,616	4.72	13.4	11.4
1990	91,153	6.47	9.2	9.8
2000	90,302	(0.93)	3.8	13.2

Population Characteristics	City of Bangor	Bangor MSA	State of Maine
Median age (years)	36.1	35.9	38.6
% school age	15.5%	16.6%	18.1%
% working age	64.7%	65.5%	62.0%
% 65 and over	14.1%	12.6%	14.4%
Persons/household	2.12	2.32	2.39

Income	City of Bangor	Bangor MSA	State of Maine
Median family income	\$42,047	\$46,864	\$45,179
% below poverty level	16.6%	13.4%	10.9%
Per capita income	\$19,295	\$19,194	\$19,533

Housing	City of Bangor	Bangor MSA	State of Maine
% owner occupied	35.0%	45.7%	49.2%
% Built before 1939	45.0%	32.1%	29.1%
% Built since 1990	6.5%	12.0%	14.6%
Owner occupied med. value	\$87,300	\$91,100	\$98,700
Median gross rent	\$475	\$480	\$497
Occupied housing units	13,713	36,584	518,200

SOURCE: 2000 census, U.S. Department of Commerce, Bureau of the Census.

Unemployment	City of Bangor	Bangor MSA	State of Maine
2003	3.4%	3.3%	5.1%
2002	3.1	2.9	4.4
2001	3.0	2.8	4.0
2000	2.8	2.5	3.5
1999	3.0	2.7	4.1
1998	3.6	3.1	4.4
1997	4.8	4.1	5.4
1996	4.4	3.9	5.1
1995	5.5	4.7	5.7
1994	7.4	6.1	7.4

SOURCE: State of Maine, Department of Labor, Division of Economic Analysis and Research.

CITY FINANCES

BUDGETARY PROCESS

Article VI, Section 7 of the City's Charter provides for a budget process. The fiscal year (or "budget year") of the City begins on the first day of July and ends on the thirtieth day of June of the following year. The Charter provides that the City Manager submit a budget to the Council not later than the second Monday in April before the end of the fiscal year. The budget contains (1) an estimate of all revenue cash receipts anticipated from sources other than the tax levy for the budget year; (2) the estimated expenditures necessary for the operation of the City; (3) debt service requirements for the budget year; (4) estimated tax levy for the budget year; and (5) a balanced relationship between total estimated expenditures and revenues (including tax levy, without overlay). The Council has the prerogative to modify the expenditures of the proposed budget. If the Council fails to adopt a budget by the beginning date of the fiscal year, the Charter directs that the City Manager's proposed budget shall automatically become the budget for the next fiscal year. Upon adoption of the budget, a property tax levy is then established and filed with the City Assessor. The following table sets forth the trends in the General Fund's budgets for the City for the last four fiscal years and for the current fiscal year.

**City of Bangor
General Fund Budgets
Fiscal Year Ending June 30,
(000)**

	2000	2001	2002	2003	2004
Revenues					
Taxes	\$36,467	\$37,889	\$39,654	\$41,289	42,509
Intergovernmental	16,824	19,861	16,590	16,822	17,059
Licenses and Permits	363	381	378	370	389
Charges for Services	8,359	8,102	7,510	8,006	8,440
Fines, Forfeits and Penalties	28	28	22	20	25
Use of Property	723	701	726	765	742
Other Sources	-	-	758	1,412	1,467
Total Revenues	\$62,763	\$66,962	65,638	68,692	70,631
Expenditures					
General Government	\$3,510	\$4,859	5,167	5,238	5,477
Public Safety	9,461	10,244	10,864	11,290	11,687
Health, Welfare and Recreation	2,667	2,792	2,857	2,875	3,140
Public Services	7,375	7,691	7,869	7,971	7,921
Other Agencies	2,517	2,694	2,900	3,275	3,295
Education	33,877	34,271	31,352	33,174	34,022
Other	1,674	1,835	3,455	3,199	3,425
Debt Service	1,229	1,193	1,174	1,670	1,664
Total Expenditures	\$62,312	\$65,548	\$65,638	\$68,692	\$70,631
Excess of Revenues Over Expenditures	\$451	\$1,414	\$0	\$0	\$0

CAPITAL IMPROVEMENT PLAN

The City of Bangor has had a Capital Improvement Plan ("CIP") since 1975. The CIP includes a Capital Budget for the current year and the next four years. The City's current CIP includes total expenditures of approximately \$88.532 million over a five-year period, or approximately \$17.7 million per average year. The overall program is driven by a number of factors. Primary among them are United States Environmental Protection Agency ("EPA") and State of Maine Board of Environmental Protection ("BEP") mandates and requirements relating to secondary treatment and combined sewer overflows ("CSO"), development of the City's waterfront and improvements to the Bangor International Airport. The following table displays the City's current Capital Improvements Schedule, and proposed mode of funding:

Capital Improvement Plan Fiscal Year Ending June 30,

EXPENDITURES	2004	2005	2006	2007	2008	Totals
Central Services	-	39,000	-	-	-	39,000
Motor Pool	722,097	722,275	637,831	653,777	670,122	3,406,102
Finance	175,000	540,000	410,000	370,000	10,000	1,505,000
Police	5,535,000	1,100,000	-	-	-	6,635,000
Fire	445,850	850,786	468,809	131,923	-	1,897,368
Parks & Recreation	132,000	450,000	92,000	150,000	-	824,000
Public Works	1,090,000	940,000	940,000	940,000	940,000	4,850,000
Infrastructure	425,000	225,000	375,000	1,825,000	325,000	3,175,000
Waterfront	4,517,210	16,310,741	3,788,840	11,031,184	-	35,647,975
Other	-	1,957,000	-	-	-	1,957,000
Total General Fund	13,042,157	23,134,802	6,712,480	15,101,884	1,945,122	59,936,445
Park Woods	68,302	143,947	163,660	-	-	375,909
Airport	7,454,866	3,141,111	2,766,943	3,860,210	-	17,223,130
Wastewater Treat Plant	1,540,000	2,490,000	1,750,000	1,500,000	1,500,000	8,780,000
Bass Park	-	-	-	-	-	-
Parking	210,000	50,000	50,000	50,000	50,000	410,000
Golf Course	50,000	300,000	50,000	100,000	50,000	550,000
Economic Development	404,628	726,055	125,854	-	-	1,256,537
Total Enterprise Funds	9,727,796	6,851,113	4,906,457	5,510,210	1,600,000	28,595,576
TOTAL EXPENDITURES	22,769,953	29,985,915	11,618,937	20,612,094	3,545,122	88,532,021
FUNDING SOURCES						
Operating Budget	885,000	729,000	702,000	650,000	1,025,000	3,991,000
Bond Proceeds	9,824,307	7,305,016	5,541,671	2,554,961	920,122	26,146,077
CDBG	-	580,000	-	-	-	580,000
Reserves	642,850	100,786	103,809	131,923	-	979,368
Other	1,690,000	14,420,000	365,000	11,765,000	-	28,240,000
Total General Fund	13,042,157	23,134,802	6,712,480	15,101,884	1,945,122	59,936,445
Operating Budget	606,333	382,555	699,722	252,222	100,000	2,040,832
Bond Proceeds	5,129,628	4,076,055	1,625,854	1,500,000	1,500,000	13,831,537
CDBG	-	-	-	-	-	-
Reserves	-	250,000	-	50,000	-	300,000
Other	3,991,835	2,142,503	2,580,881	3,707,988	-	12,423,207
Total Enterprise Funds	9,727,796	6,851,113	4,906,457	5,510,210	1,600,000	28,595,576
TOTAL SOURCES	22,769,953	29,985,915	11,618,937	20,612,094	3,545,122	88,532,021

INVESTMENT POLICY

The City has established a formal Investment Policy. Pursuant to its Investment Policy and applicable Maine law [Title 30-A, Section 5706 *et seq.* of the Maine Revised Statutes, as amended (the “Act”)] all investments of the City must be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment considering (i) safety of principal and maintenance of capital, (ii) maintenance of sufficient liquidity to meet all operating and cash requirements with which a fund is charged, that is reasonably expected, and (iii) return of income commensurate with avoidance of unreasonable risk. Under its policy, the City’s investment practice is to maintain a cash and investment pool that is available for use by all funds and consists of short-term investments. The City is invested principally in direct obligations of the United States government and its agencies. The City is not invested in any obligations typically referred to as derivatives, meaning obligations created from, or whose value depends on or is derived from the value of one or more underlying assets or indexes of asset values in which the municipality owns no direct interest. For further information regarding the City’s investments see “APPENDIX A – FINANCIAL STATEMENTS – Notes to Financial Statements – DETAILED NOTES ON ALL FUNDS, Note A” herein.

FUND BALANCE POLICY

Article VI, Section 16 of the City’s Charter requires maintaining the City’s undesignated/unreserved fund balance at between 5% and 10% of the previous year’s expenditures, net of debt service. As part of its a formal policy, the City targets these balances to be at 7.5%. For the fiscal year ended June 30, 2003, the undesignated/unreserved fund balance was 11.6% of 2003 General Fund expenditures. See also “APPENDIX A – FINANCIAL STATEMENTS – Notes to Financial Statements – Note G” herein.

FINANCIAL STATEMENTS

Title 30-A, Chapter 223, Subchapter VIII of the Maine Revised Statutes, as amended, and Article VI, Section 2 of the City’s Charter provide for independent annual audits of the City’s accounts and establishes procedures for such audits. The City, in conformance with this statute and its Charter currently engages the services of Runyon Kersteen Ouelette, Certified Public Accountants.

The City’s fiscal year 2003 Annual Report, audited by Runyon Kersteen Ouelette, Certified Public Accountants, is presented as APPENDIX A to this Official Statement. The City has not requested the consent of Runyon Kersteen Ouelette for the incorporation of the Financial Statements included in APPENDIX A, nor has it been received. The City’s “Management’s Discussion and Analysis” for this period is included in APPENDIX B.

The Government Finance Officers Association (the “GFOA”) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2002. This was the sixth consecutive year that the City applied for and received this prestigious award. In order to be awarded the certificate, the City published an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles (“GAAP”) and applicable legal requirements.

FUNDS

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with

finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The City has the following fund types and account groups:

Governmental Funds are used to account for most governmental functions of the City. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Governmental Funds include the following fund types:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The **Special Revenue Funds** account for revenue sources (not including expendable trusts or major capital projects) that are legally restricted to expenditure for specific purposes.

The **Capital Project Fund** is used to account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or non-expendable trust funds.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City has adopted the Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held under the terms of a formal trust agreement.

Non-expendable Trust Funds are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Non-expendable trust funds account for assets for which the principal may not be spent.

Expendable Trust Funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The **Agency Fund** is custodial in nature and does not present results of operations or have a measurement focus. The Agency fund is accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity.

Account groups are used to establish accounting control and accountability for certain long-term assets and liabilities of governmental fund types and non-expendable trust funds, as follows:

The **General Fixed Assets Account Group** is used to account for fixed assets not accounted for in proprietary funds.

The **General Long-term Debt Account Group** is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

CITY OF BANGOR
COMPARATIVE BALANCE SHEET
GENERAL FUND
(As of June 30,)

	2003	2002	2001	2000	1999
ASSETS					
Cash and investments	\$16,165,808	\$17,569,071	\$15,128,248	\$11,853,083	\$10,071,925
Receivables:					
Taxes	1,749,458	1,786,585	2,258,958	2,660,033	2,312,134
Accounts	912,955	1,326,131	1,293,678	912,727	548,472
Interfund loans	1,573,355	1,880,855	1,954,995	2,685,560	3,292,560
Intergovernmental	1,491,741	996,042	1,143,129	1,759,818	1,208,339
Loan	1,300,000	0	0	0	0
Inventory	547,061	397,092	353,391	340,001	323,700
Prepaid items	6,887	3,609	63,837	126,885	27,974
TOTAL ASSETS	23,747,265	23,959,385	22,196,236	20,338,107	17,785,104
LIABILITIES					
Accounts payable	1,151,931	949,598	930,983	869,887	1,254,759
Accrued payroll	3,205,789	3,113,536	3,108,504	2,676,881	2,526,365
Workers' compensation	607,890	607,890	607,890	607,890	607,890
Deferred revenue	1,513,698	1,671,095	2,212,222	2,327,113	2,200,129
Taxes collected in advance	0	0	0	80,368	29,707
TOTAL LIABILITIES	6,479,308	6,342,119	6,859,599	6,562,139	6,618,850
FUND BALANCE					
Reserved:					
Prepaid and Encumbrances	1,259,835	924,000	734,155	537,605	503,936
Interfund Loans	1,432,689	1,280,855	1,580,369	2,370,000	2,885,000
Unreserved:					
Designated	5,682,749	6,120,644	5,151,848	3,788,941	3,535,076
Undesignated	8,892,684	9,291,767	7,870,265	7,079,422	4,242,242
TOTAL FUND BALANCE	17,267,957	17,617,266	15,336,637	13,775,968	11,166,254
TOTAL LIABILITIES AND FUND BALANCE	\$23,747,265	\$23,959,385	\$22,196,236	\$20,338,107	\$17,785,104

Prepared from Audited Financial Statements

CITY OF BANGOR
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GENERAL FUND
(For the Years Ended June 30,)

	2003	2002	2001	2000	1999
REVENUES					
Taxes	\$41,948,596	\$40,499,774	\$38,504,336	\$37,056,683	\$35,238,716
Intergovernmental	24,252,060	23,229,919	22,722,532	22,594,445	21,228,186
Licenses and permits	409,842	298,665	392,778	393,354	499,483
Charges for services	9,734,546	9,971,776	9,156,017	8,482,948	8,206,229
Fines, forfeits and penalties	-	28,009	15,106	19,178	24,813
Revenue from use of property	1,142,089	1,361,477	1,622,592	1,502,678	1,338,301
Other	9,707				
TOTAL REVENUES	77,496,840	75,389,620	72,413,361	70,049,286	66,535,728
EXPENDITURES					
General government	4,223,670	4,144,775	3,656,208	3,566,853	3,429,619
Public safety	11,018,419	10,793,402	10,174,860	9,384,779	10,330,128
Health, welfare and recreation	3,230,938	2,875,541	2,710,864	2,626,456	2,647,397
Public buildings and services	7,876,895	7,351,237	7,103,481	7,080,082	7,125,389
Other agencies	3,386,873	2,956,506	3,130,510	2,500,460	2,391,962
Education	44,690,381	40,820,241	37,531,159	36,827,720	34,224,834
Other appropriations	2,223,533	28,023,947 ⁽¹⁾	1,846,379	1,545,415	131,815
Capital outlay	143,593	605,012	292,829	451,708	1,521,493
Debt service	1,611,606	866,862	1,197,825	1,214,661	1,340,136
TOTAL EXPENDITURES	78,405,908	98,437,523⁽¹⁾	67,644,115	65,198,134	63,142,773
EXCESS (DEFICIENCY) OF OPERATING REVENUES OVER EXPENDITURES	(909,068)	(23,047,903)	4,769,246	4,851,152	3,392,955
OTHER FINANCING SOURCES (USES)	559,759	25,328,532⁽¹⁾	(3,208,577)	(2,241,438)	(1,259,132)
EXCESS (DEFICIENCY) REVENUES/EARNINGS OVER EXPENDITURES/OTHER USES	(349,309)	2,280,629	1,560,669	2,609,714	2,133,823
BEGINNING FUND BALANCE	17,617,266	15,336,637	13,775,968	11,166,254	9,032,431
ENDING FUND BALANCE	\$17,267,957	\$17,617,266	\$15,336,637	\$13,775,968	\$11,166,254

Prepared from Audited Financial Statements

NOTE: ⁽¹⁾ Includes the proceeds and subsequent payment to MSRS of a portion of the City's IUUAL in fiscal year 2002. See RETIREMENT - B. DEFINED BENEFIT PENSION PLAN" herein.

PROPERTY TAXATION

The principal tax of the City is the tax on real and personal property. There is no limit as to rate or amount. See "CITY FINANCES – TAX RELIEF INITIATIVES" herein. A single tax applies for each fiscal year to the assessed value of the taxable real or personal property. The City's Tax Collector receives the tax commitment from the City Assessor, with assessed values as of April 1 of each year, after which time the tax bills are due in two installments. For fiscal 2003/2004 the tax due dates are September 15, 2003 and March 15, 2004. All taxes paid after the due date are subject to interest, at the rate of 7.00% per annum.

Collection of real estate taxes is ordinarily enforced in the City by the "tax lien" procedure as provided in the Maine Revised Statutes, as amended, to the collection of delinquent real estate taxes. Real Estate Tax Liens are recorded against the individual property at the County Registry of Deeds. This lien has priority over all mortgages, liens, attachments and encumbrances of any nature, subject to any paramount federal tax lien and subject to bankruptcy and insolvency laws. If the account is not satisfied within 18 months, the property becomes tax acquired and may be disposed of by the City.

Fiscal Yr. End June 30,	Equalized State Valuation (000)	Assessed Valuation (000)	Tax Rate (000)	Net Tax Levy (000)	Collections (after Supplements and Abatements)		
					Year End (000)	% of Levy	% of Levy A/O 8/31/03
2004	\$1,741,600	\$1,740,329	\$23.35	\$39,808	----- In Process -----		
2003	1,609,250	1,691,229	23.60	39,021	\$37,785	97.46	100.0%
2002	1,606,250	1,588,392	23.75	36,685	35,633	97.13	100.0
2001	1,504,200	1,537,788	23.45	35,025	33,930	96.88	100.0
2000	1,433,450	1,475,622	23.70	33,824	32,809	97.00	100.0
1999	1,417,950	1,408,439	23.80	32,467	31,085	95.74	100.0
1998	1,392,350	1,387,171	23.35	32,236	30,806	95.56	100.0
1997	1,343,550	1,363,463	22.90	31,041	29,482	94.98	100.0
1996	1,330,900	1,340,977	23.15	30,742	29,297	95.30	100.0
1995	1,304,750	1,305,791	23.05	29,983	28,251	94.22	100.0
1994	1,318,750	1,292,838	22.00	28,169	26,500	94.08	100.0

LARGEST TAXPAYERS

Taxpayer	Business	as of June 30, 2003		
		Assessed Value	Property Tax	% of Levy
BANMAK Associates	Shopping Mall	\$49,148,600	\$1,135,333	2.91%
General Electric	Steam Turbine Manf.	42,504,850 ⁽¹⁾	981,862	2.52
Bangor-Hydro Electric	Utility	28,451,200	657,223	1.68
Bangor Savings Bank	Bank	16,789,900	387,847	0.99
Eastern Maine Healthcare	Healthcare	16,013,600	369,914	0.95
QV Realty Trust	Real Estate	12,409,300	286,655	0.73
May Department Stores	Retailer	10,783,200	249,092	0.64
Cabrel Company	Real Estate	10,703,400	247,249	0.63
Airport Mall Associates	Shopping Mall	10,244,600	236,650	0.61
Sam's Real Estate Trust	Retail Merchandiser	9,698,700	224,040	0.57

NOTE: ⁽¹⁾ Net of \$59,493,650 of tax increment financing assets.

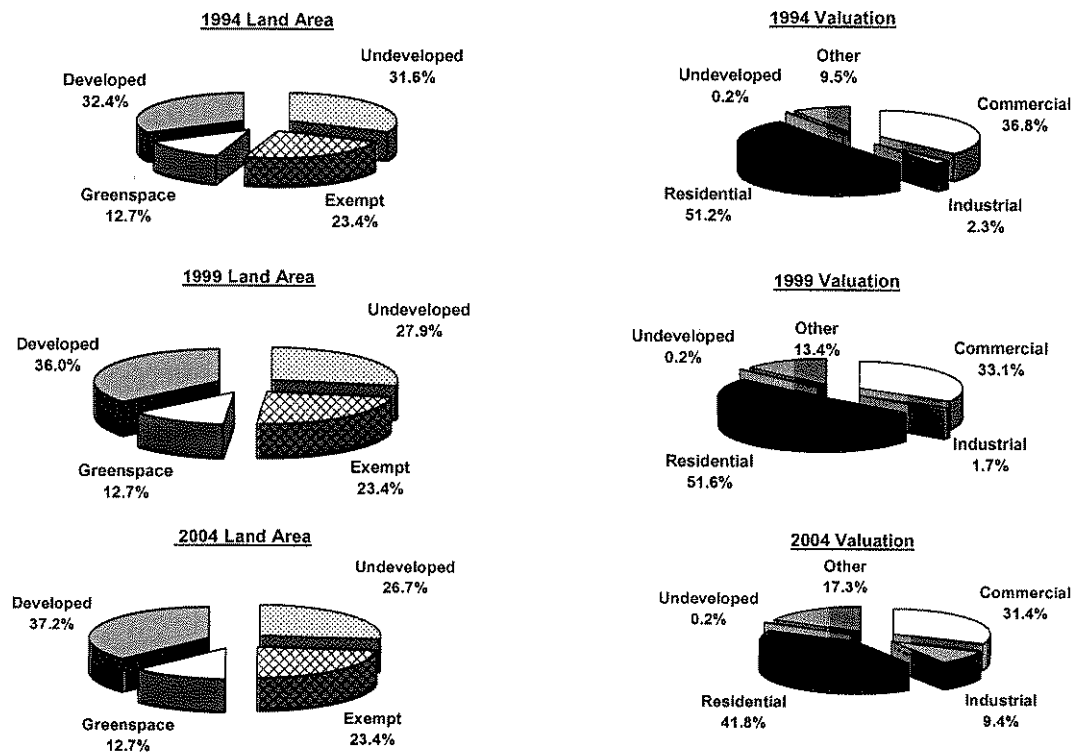
CURRENT TAX BASE AND TAX BASE GROWTH

The City's land area is comprised of 22,214 acres. The below table and charts display the potential increase in tax base over the last decade by the conversion of land from undeveloped to developed.

By Land Area (acres)	1994	1999	2004
Undeveloped ⁽¹⁾	7,015	6,198	5,935
Exempt	5,198	5,198	5,198
Greenspace ⁽²⁾	2,811	2,811	2,811
Developed	7,190	8,007	8,270
Total	22,214	22,214	22,214

NOTE: ⁽¹⁾ May include an undetermined amount of land that cannot be developed.

⁽²⁾ Includes Resource Protection; Parks & Open Space; and Stream Protection, which land is not currently viewed as developable by the City.



The below table displays the increase in the City's tax base over the last decade, by valuation of property; and the above charts display the shift in tax base, although in each category by greater amounts, by use.

By Use	1994	1999	2004	10 yrΔ
Commercial	\$486,136,579	\$471,147,500	\$560,057,873	15.21%
Industrial	30,976,632	23,604,200	168,164,681	442.88%
Residential	677,231,188	734,584,468	745,503,520	10.08%
Undeveloped	3,004,980	2,652,480	3,049,880	1.49%
Other	125,344,020	191,142,892	308,351,889	146.00%
Equal State Val	\$1,322,693,399	\$1,423,131,540	\$1,785,127,843	34.96%

NOTE: "Other" includes tax-exempt properties, greenspace, wetlands or non-developable property.

TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DEVELOPMENT DISTRICTS

Chapter 206 of Title 30-A of the Maine Revised Statutes, as amended, enables a municipality to finance qualified development by borrowing against the future increased property tax receipts attributable to that development. Under the statutory framework, the municipality designates a tax increment financing (“TIF”) district or an affordable housing development district (a “housing district”) and adopts a development program (the “Development Program”) stating the means and objectives for the development of that district. The municipality may designate, or “capture”, all or a portion of the increase in assessed value resulting from development within the district and dedicates the increased property taxes it receives in future years generated by the “captured” assessed value to payment of the costs of the Development Program, which may include debt service on borrowing to fund such costs. Such districts are subject to statutory limits on their size, including the following limitations: (a) the total area of a single district may not exceed 2% of the total acreage of the municipality, (b) the total area of all TIF districts or housing districts within a municipality each may not exceed 5% of the total acreage of the municipality, and (c) the aggregate assessed value of property of all the districts and all housing districts within the municipality as of the April 1st preceding the date of designation of each such district cannot exceed 5% of the municipality’s total value of equalized taxable property. Excluded from this limit as applicable to TIF districts is any district involving project costs in excess of \$10,000,000, the geographic area of which consists entirely of contiguous property owned by a single taxpayer with an assessed value in excess of 10% of the municipality’s total assessed value. The increase in assessed value captured by the municipality is excluded from the municipality’s equalized just value for each year’s State valuation filed with the Secretary of State in accordance with Title 36, Sections 208 and 305 of Maine Revised Statutes, as amended, and is therefore not included in calculating that municipality’s share of State educational aid, State municipal revenue sharing, the county tax or the 15% debt limitation for the municipality pursuant to Title 30-A, Section 5257 of the Maine Revised Statutes, as amended.

The City has designated TIF districts and is actively considering proposals for other districts on an ongoing basis. All districts will be evaluated based upon the City’s comprehensive plan for economic development, which includes TIF as one of its aspects. In no event will the City’s districts exceed the statutory limitation of total area to not more than 5% of the City’s acreage, and aggregate equalized value within all districts (not otherwise exempt from this calculation), determined as of their date of designation, of not more than 5% of the City’s total equalized value of taxable property.

TAX RELIEF INITIATIVES

An Act to Impose Limits on Real and Personal Property Taxes

On Monday, February 9, 2004, the Secretary State of the State of Maine announced that the Maine Taxpayers Action Network had submitted sufficient, valid signatures required by the State’s constitution to cause a statewide referendum initiative on a plan to cap local property taxes. Should the State Legislature not pass the initiative, without change, it must be sent to referendum vote. This initiative is currently scheduled to be voted on in the November 2, 2004 statewide referendum election.

This initiative limits the ad valorem taxes levied on real or personal property to a maximum rate of 1% of the value of the property. The base value of the property would be the 1996/1997 assessed value. For property constructed, sold or transferred after the 1996/1997 assessment, the base value would be the appraised value at the time of construction or acquisition. This base value could be adjusted up or down each year by a maximum of 2%. Certain exemptions, including transfers between spouses and transfers between a parent and child, are included. The initiative also would prohibit any change in the maximum property tax rate except by a 2/3 vote of all voters in a statewide referendum. Localities could impose

special taxes, except on property, and only by a 2/3 vote of the electors in the locality by referendum at a general election in November. The limitation provided for in the initiative would not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to July 1, 1999 or to any bonded indebtedness for the acquisition or improvement of real or personal property approved on or after July 1, 1999, by 2/3 of the votes cast by voters voting on the proposition in a general election.

The School Finance Act of 2003

A proposal titled “The School Finance and Comprehensive Tax Reform Act of 2003”, sponsored by the Maine Municipal Association (“MMA”) and Citizens to Reduce Local Property Taxes Statewide, was certified by the Secretary of State in February 2003 and was voted on in the statewide referendum election on November 4, 2003. This was one of three “tax relief” options put to the voters in the November 2003 election, and to pass the MMA plan had to win a majority of votes. Despite getting the most votes, it did not get the majority and was enabled to be put on the June 8, 2004 ballot for reconsideration by the voters.

The initiative would provide financial incentives for municipalities and school districts to cut costs. It would require the Legislature to pay at least 55% of the cost of local schools from the approximate 43% that the State currently pays. The proposal would not force cities and towns to cut or cap property taxes in exchange for increased school aid.

The Governor’s Proposal

On Wednesday, March 3, 2004, the Governor presented his own “tax relief” plan. His initial comments provide for a “ramp up” of the State’s share of education costs to 55 percent, but over a five-year period. Furthermore he intends to present a substantial part of the new funding to be used to reward school districts that regionalize services or join to form larger districts. The Governor is also supporting a bill that would establish a cap on municipal and county government spending so that municipal and county budgets could not exceed the average real personal income growth rate, adjusted by inflation, except in exceptional circumstances and that would exempt certain business equipment from personal property taxation by municipalities for property that would have been first subject to property tax after April 1, 2004 in the absence of this exemption. Published reports indicate that due to the gradual relief aspect the Governor’s proposal currently lacks the support of the MMA and the Maine Education Association.

Current Status

At this time, the State Legislature has not acted on the above first initiative, with the probability that it may go to referendum vote. At this time the City is unable to comment on the success or failure of either of the first two initiatives at referendum vote. If the first initiative becomes law as proposed and is not modified by further legislative or judicial action, the City anticipates that the provision of the initiative would have a significant adverse effect on the City’s financial and operating position.

STATE AID

The State of Maine provides aid to the City in a number of areas including education, welfare assistance, road maintenance and revenue sharing. The amount of aid in each category is based upon a number of formulas, many of which change annually, and dependent upon provisions of State law and/or appropriation by the State legislature. Educational subsidies include general purpose aid, financing costs relating to certain school construction projects and categorical aid.

The following table displays State aid received by the City for the last six fiscal periods:

Fiscal Yr. End June 30,	State Revenue Sharing	State School Subsidy	Other School Aid	Homestead Exemption	Other State Aid	Total From State
2003	\$3,135,741	\$11,192,437	\$3,785,114	\$893,050	\$1,204,032	\$20,210,374
2002	3,198,538	10,914,721	3,567,774	906,607	992,851	19,580,491
2001	3,505,672	10,685,509	3,012,545	908,170	1,002,964	19,114,860
2000	3,559,200	9,871,197	3,685,094	917,211	903,464	18,936,166
1999	3,081,109	9,212,650	3,546,388	927,108	1,893,799	18,641,054
1998	2,987,493	9,365,493	2,199,667	NA	1,680,930	16,233,583

INDEBTEDNESS

LIMITATIONS AND EXCLUSIONS

In accordance with Title 30-A, Section 5702 of the Maine Revised Statutes, as amended, “No municipality shall incur debt which would cause its total debt outstanding at any time, exclusive of debt incurred for school purposes, for storm or sanitary sewer purposes, for energy facility purposes or for municipal airport purposes to exceed 7 ½% of its last full state valuation, or any lower percentage or amount that a municipality may set. A municipality may incur debt for school purposes to an amount outstanding at any time not exceeding 10% of its last full state valuation, or any lower percentage or amount that a municipality may set, for storm and sewer purposes to an amount outstanding at any time not exceeding 7 ½% of its last full state valuation, or any lower percentage or amount that a municipality may set, and for municipal airport and special district purposes to an amount outstanding at any time not exceeding 3% of its last full state valuation, or any lower percentage or amount that a municipality may set; provided, however, that in no event shall any municipality incur debt which would cause its total debt outstanding at any time to exceed 15% of its last full state valuation, or any lower percentage or amount that a municipality may set.”

Title 30-A, Section 5703 of the Maine Revised Statutes, as amended, provides that the limitations on municipal debt contained in Section 5702 do not apply “... to any funds received in trust by any municipality, any loan which has been funded or refunded, notes issued in anticipation of federal or state aid or revenue sharing money, tax anticipation loans, notes maturing in the current municipal year, indebtedness of entities other than municipalities, indebtedness of any municipality to the Maine School Building Authority, debt issued under Chapter 235 and Title 10, chapter 110, subchapter IV, obligations payable from revenues of the current municipal year or from other revenues previously appropriated by or committed to the municipality, and the state reimbursable portion of school debt.”

The City’s 2004 equalized state valuation (“equalized State Valuation”) is listed at \$1,741,600,000. The 15% debt limit is \$261,240,000. As of June 30, 2003 the City’s long term general obligation debt outstanding was \$105,523,084, or 6.06% of the equalized State Valuation.

The City will certify on the date of issue of the Bonds that the City has not exceeded the foregoing debt limits and that issuance of the Bonds will not cause the City to exceed the debt limit.

DEBT SUMMARY

At June 30, 2003 the City had \$15,163,896 of School Debt, portions of which are eligible for inclusion in the City’s debt service allocation for the purpose of calculating the State school construction subsidy.

The debt that is eligible for State school construction subsidy was financed under the authority of Title 30-A, Section 5772 of the Maine Revised Statutes, as amended, the School Finance Act of 1985 (the "Act"), being Chapter 606 of Title 20-A of the Maine Revised Statutes, as amended, the State Board's Rules for Major Capital School Construction Projects (the "Rules") and the City's Charter. The City is solely responsible for the debt service for the local share portion of the loan that is eligible for State subsidy and all of the debt service on any portion of the project that is not eligible for such subsidy.

For the fiscal year ended June 30, 2003, seven services provided by the City were established as Enterprise activities, whereby the intent of the City was for the activity to provide services on a continuing basis financed entirely through user charges and therefore be self-supporting. These include funds, as follows: *Sewer Utility Fund, Airport Fund, Park Woods, Parking Fund, Bass Park Fund, Municipal Golf Course and Economic Development Fund*. All Enterprise debt is general obligation debt of the City, backed by its full faith and credit, ad valorem taxing power. The activities of these funds have been financed by general obligation debt of the City except for the Park Woods, that does not have a current debt obligation. Three of the funds, the Park Woods, Parking and Bass Park funds had net losses before operating transfers on of June 30, 2003. The following is a summary of the City's Enterprise Fund activities as of June 30, 2003:

Enterprise Fund Activities

Enterprise Fund	Operating Revenue	Net Operating Income	Net Income	Net Assets
Sewer	\$6,569,790	\$2,130,195	\$1,409,570	\$34,778,855
Airport	9,253,620	(4,685,667)	6,208,733	130,170,076
Park Woods	283,052	(166,821)	(166,793)	1,280,043
Parking	807,645	(249,160)	(558,899)	92,015
Bass Park	1,362,054	(497,026)	(230,874)	(1,226,342)
Municipal Golf Course	623,233	53,601	62,133	1,603,452
Economic Development	388,165	155,058	127,773	2,744,703
Total Enterprise Funds	\$19,287,559	\$(3,259,820)	\$6,851,643	\$169,442,802

The following is a summary of the City's Enterprise Fund General Obligation Debt as of June 30, 2003:

General Obligation Debt (Enterprise Funds)

Enterprise Fund	Outstanding Long-Term Debt		
	Current	> One Year	Total
Sewer	\$2,512,637	\$28,534,113	\$31,046,750
Airport	333,178	7,035,181	\$7,368,359
Park Woods	0	0	\$0
Parking	433,215	5,316,158	\$5,749,373
Bass Park Complex	126,137	1,778,578	\$1,904,715
Municipal Golf Course	445	94,158	\$94,603
Economic Development	237,659	1,452,593	\$1,690,252
Total Enterprise Debt	\$3,643,271	\$44,210,781	\$47,854,052

Outstanding Debt

General obligation debt for payable at fiscal year-end June 30, 2003 (audited) and projected for fiscal year-end June 30, 2004 (unaudited) are comprised of the following individual issues:

Year Issued	Amount Issued (\$/000)	Final Date	Balance A/O June 30, 2003				As of June 30, 2004	
			General Fund		Enterprise Funds	Total Debt	Payments	Balance Due
			City	School				
1988	3,200.0	10/28/07	0	0	500,000	500,000	(100,000)	400,000
1991	19,000.0	10/01/12	0	0	9,500,000	9,500,000	(950,000)	8,550,000
1993A	1,864.0	10/01/13	0	0	1,025,200	1,025,200	(93,200)	932,000
1993B	1,986.0	10/01/13	0	0	1,092,300	1,092,300	(99,300)	993,000
1994 ⁽¹⁾	11,155.0	08/01/10	238,215	2,065,000	5,136,785	7,440,000	(1,065,000)	6,375,000
1996A	1,030.0	09/01/15	540,000	0	0	540,000	(70,000)	470,000
1996B	2,942.9	10/01/16	0	0	2,212,864	2,212,864	(131,456)	2,081,408
1996C ⁽²⁾	975.0	05/01/16	805,000	0	0	805,000	(35,000)	770,000
1996D	1,500.0	09/01/16	1,170,000	0	0	1,170,000	(65,000)	1,105,000
1997A	2,452.4	10/01/17	0	0	1,933,206	1,933,206	(109,643)	1,823,563
1997B	8,500.0	09/01/17	2,737,370	2,900,000	1,397,630	7,035,000	(330,000)	6,705,000
1998A ⁽²⁾	276.0	11/01/17	250,000	0	0	250,000	(9,000)	241,000
1998B	3,394.0	06/01/19	1,400,500	40,000	1,209,500	2,650,000	(220,000)	2,430,000
1999A ⁽³⁾	259.8	07/17/17	0	0	216,426	216,426	(10,030)	206,396
1999B ⁽²⁾	395.5	05/01/04	0	0	173,827	173,827	(173,827)	0
2000	3,105.0	01/01/20	1,331,623	0	1,413,377	2,745,000	(130,000)	2,615,000
2001	5,816.0	04/01/21	1,288,000	250,000	3,787,000	5,325,000	(255,000)	5,070,000
2001(SSRF) ⁽⁴⁾	568.6	10/01/10	0	454,880	0	454,880	(56,860)	398,020
2001 ⁽²⁾	699.9	09/01/11	681,394	0	0	681,394	(19,679)	661,715
2002	11,025.0	04/01/22	4,575,000	4,275,000	1,725,000	10,575,000	(590,000)	9,985,000
2002(POB)	34,030.0	06/01/26	26,592,308	1,686,587	5,656,105	33,935,000	(165,000)	33,770,000
2003A	6,910.0	11/01/23	705,082	3,430,077	2,774,841	6,910,000	(630,000)	6,280,000
2003B	3,500.0	10/01/12	0	0	3,500,000	3,500,000	(315,000)	3,185,000
2003(SRF)	3,000.0	10/01/22	0	0	3,000,000	3,000,000	(132,225)	2,867,775
2003(SSRF) ⁽⁵⁾	92,114.0	10/01/08	0	62,352	0	62,352	(12,470)	49,882
2003 ⁽²⁾	300.0	07/01/11	0	0	300,000	300,000	(36,384)	263,616
2003 ⁽²⁾	190.6	07/01/14	190,635	0	0	190,635	(18,339)	172,296
Work Comp	1,300.0	03/01/23	0	0	1,300,000	1,300,000	(53,802)	1,246,198
The 2004 Bonds	9,227.0	11/01/24					0	9,227,000
TOTALS			42,505,127	15,163,896	47,854,061	105,523,084	(5,876,215)	108,873,869

NOTE: ⁽¹⁾ In addition to the \$1,045,000 normal principal payment to be made on August 1, 2004, the remaining \$5,330,000 balance outstanding is expected to be paid from a portion of the proceeds of the Bonds.

⁽²⁾ Six series of general obligation notes, aggregating \$2,400,856, are held as investments by the City's Airport Fund at fixed, taxable market rates of interest. The notes are structured with a put feature, which, upon certain precedent conditions, allows the Airport to present the notes for redemption to the City's General Fund. It is the City's intention, should a put occur, to fund the put by issuing a note to its Sewer Fund, converted to a three to five year fixed note with level debt service, without put option.

⁽³⁾ Privately placed note, with specific terms of repayment and no put option.

⁽⁴⁾ Under the State SRRF Program, the City borrowed \$1,000,000 to finance a portion of the costs of a \$1,300,000 Fruit Street School Project, a \$300,000 portion of which was financed with the proceeds of the City's 2001 Bonds. However, \$431,400 need not be repaid by the City but will be forgiven by the State. The balance of \$568,600 will be paid in ten equal annual installments at 0% interest.

⁽⁵⁾ Under the State SRRF Program, the City borrowed \$92,114 to finance a portion of the costs of a School Project. However, \$29,762 need not be repaid by the City but will be forgiven by the State. The balance of \$62,352 will be paid in five equal annual installments at 0% interest.

CITY OF BANGOR, MAINE
GENERAL OBLIGATION BONDS
PROJECTED PRINCIPAL PAYMENTS BY ISSUE
(\$/000)

FY End June 30,	1988	1991	1993 A	1993 B	1996 A	1996 B	1996 D	1997 A	1997 B	1998 B	2000	2001	2001 SSRF	2002 A	2002 POB	2003 A	2003 B	2003 SRF	2003 SSRF	The Bonds	Total Debt	
2005	100	950	93.2	99.3	70	134	60	112	345	180	135	265	57	590	240	655	320	134	12	0	4,551	
2006	100	950	93.2	99.3	50	136	70	114	360	180	140	270	57	590	320	665	325	135	12	1,322	5,989	
2007	100	950	93.2	99.3	40	141	70	117	380	180	150	280	57	590	410	685	330	137	12	1,275	6,097	
2008	100	950	93.2	99.3	40	145	80	119	395	180	155	285	57	595	505	690	340	138	12	1,235	6,214	
2009		950	93.2	99.3	40	149	80	122	415	180	160	295	57	595	610	690	350	140	12	1,190	6,228	
2010		950	93.2	99.3	40	153	85	124	435	155	170	305	57	595	545	675	360	142		1,140	6,123	
2011		950	93.2	99.3	40	158	95	127	455	155	130	315	57	600	650	675	375	144		570	5,688	
2012		950	93.2	99.3	30	163	95	131	480	155	140	285		600	765	665	385	145		210	5,392	
2013		950	93.2	99.3	30	178	85	134	505	155	145	295		595	890	605	400	147		210	5,517	
2014			93.2	99.3	30	173	85	137	530	155	155	270		595	1,025	25		150		210	3,732	
2015					30	179	95	141	555	155	165	280		505	1,180	25		152		210	3,672	
2016					30	184	100	144	585	150	175	295		505	1,345	25		154		210	3,902	
2017						191	105	148	615	150	180	300		505	1,520	25		156		205	4,100	
2018								152	650	150	190	310		505	1,665	25		159		155	3,961	
2019										150	205	325		505	1,865	25		161		155	3,391	
2020											220	340		505	2,085	25		164		155	3,494	
2021												355		505	2,320	25		167		155	3,527	
2022														505	2,575	25		170		155	3,430	
2023															2,850	25		173		155	3,203	
2024															3,145	25				155	3,325	
2025															3,460					155	3,615	
2026															3,800						3,800	
2027																						
Subtotal	400	8,550	932	993	470	2,084	1,105	1,822	6,705	2,430	2,615	5,070	398	9,985	33,770	6,280	3,185	2,868	62	9,227	98,951	
																				Private Loans	3,548	
																				Total Debt	102,499	

PROJECTED DEBT SERVICE REQUIREMENTS

General Obligation Bonds Projected Debt Service Requirements (\$)

Fiscal Yr. End June 30,	Prior Debt					Projected Debt (2004 Bonds)			Projected Total Debt Service
	Principal	Interest	SRF Admin.	POBs (Total D/S)	Total D/S	Principal	Interest	Interest Bonds	
2004	5,711,215	2,897,889	73,675	2,308,839	10,991,618	0	0	0	10,991,618
2005	5,513,562	2,641,426	71,894	2,378,031	10,604,913	212,000	282,635	494,635	11,099,548
2006	5,546,996	2,429,833	70,223	2,447,519	10,494,570	1,320,000	289,420	1,609,420	12,103,990
2007	5,600,479	2,212,426	68,551	2,521,551	10,403,007	1,275,000	253,795	1,528,795	11,931,802
2008	5,649,880	1,995,751	66,878	2,595,026	10,307,535	1,235,000	216,145	1,451,145	11,758,680
2009	5,577,525	1,770,259	65,206	2,671,898	10,084,887	1,190,000	178,283	1,368,283	11,453,169
2010	5,588,651	1,545,308	63,532	2,572,189	9,769,681	1,140,000	138,995	1,278,995	11,048,676
2011	5,076,235	1,331,757	61,859	2,645,742	9,115,593	570,000	109,070	679,070	9,794,663
2012	5,130,285	1,134,884	60,185	2,722,782	9,048,136	210,000	94,895	304,895	9,353,031
2013	4,590,549	920,345	58,511	2,802,724	8,372,128	210,000	86,495	296,495	8,668,623
2014	2,698,611	773,491	24,335	2,884,858	6,381,295	210,000	78,095	288,095	6,669,390
2015	2,498,190	657,712	17,505	2,973,745	6,147,152	210,000	69,695	279,695	6,426,847
2016	2,564,163	542,273	17,494	3,062,635	6,186,565	205,000	61,190	266,190	6,452,755
2017	2,493,270	422,305	17,483	3,150,883	6,083,941	155,000	53,553	208,553	6,292,494
2018	2,270,560	312,231	10,669	3,197,843	5,791,304	155,000	46,810	201,810	5,993,114
2019	1,456,687	225,576	5,243	3,290,450	4,977,956	155,000	39,913	194,913	5,172,868
2020	1,344,919	160,789	5,241	3,390,158	4,901,107	155,000	32,860	187,860	5,088,967
2021	1,148,628	96,964	5,239	3,490,675	4,741,507	155,000	25,691	180,691	4,922,198
2022	802,843	44,836	5,237	3,596,035	4,448,951	155,000	18,445	173,445	4,622,396
2023	299,832	9,907	5,235	3,704,948	4,019,922	155,000	11,121	166,121	4,186,043
2024	25,000	563	0	3,816,123	3,841,686	155,000	3,720	158,720	4,000,406
2025	0	0	0	3,928,270	3,928,270	0	0	0	3,928,270
2026	0	0	0	4,045,100	4,045,100	0	0	0	4,045,100
TOTAL	71,588,082	22,126,525	774,194	70,198,024	164,686,825	9,227,000	2,090,825	11,317,825	176,004,650

DEBT RATIOS

The following table sets forth the ratio of bonded debt to equalized State Valuation and per capita debt ratios for the end of the ten most recent fiscal years:

Fiscal Yr. End June 30,	Pop	Equal. State Val. (000)	Assessed Valuation (000)	Total Debt (000)	Gross Debt		Net of POB ⁽¹⁾	
					as % Eq. Val.	Per Capita	as % Eq. Val.	Per Capita
2004	31,473	\$1,741,600	\$1,740,329	\$108,874	6.25%	\$3,459	4.31%	\$2,386
2003	31,473	1,609,250	1,691,229	105,523	6.56	3,353	4.45	2,275
2002	31,473	1,606,250	1,588,392	101,522	6.32	3,226	4.20	2,144
2001	31,473	1,504,200	1,537,788	60,737	4.04	1,930	4.04	1,930
2000	31,473	1,433,450	1,475,622	59,928	4.18	1,904	4.18	1,904
1999	33,181	1,417,950	1,408,439	62,891	4.44	1,895	4.44	1,895
1998	33,181	1,392,350	1,387,171	61,395	4.41	1,850	4.41	1,850
1997	33,181	1,343,550	1,363,463	59,031	4.39	1,779	4.39	1,779
1996	33,181	1,330,900	1,340,977	58,759	4.41	1,771	4.41	1,771
1995	33,181	1,304,750	1,305,791	57,395	4.40	1,730	4.40	1,730
1994	33,181	1,318,750	1,292,838	62,209	4.72	1,875	4.72	1,875

NOTE: ⁽¹⁾ "POB" indicate Pension Obligation Bonds.

DEBT RATIOS, BY FUND TYPE

The following table sets forth the most recent years' ratios of bonded debt to equalized State Valuation, by fund type; and per capita debt ratios, by fund type:

Fiscal Yr. End June 30,	Debt, by Fund Type (\$/ 000)				As % Valuation, by Fund Type				Per Capita, by Fund Type (\$)			
	General Fund		Ent'p Fund	Total Debt	General Fund		Ent'p Fund	Total Debt	General Fund		Ent'p Fund	Total Debt
	City	School			City	School			City	School		
2003	42,505	15,164	47,854	105,523	2.4%	0.9%	2.7%	6.1%	1,351	482	1,520	3,353
2002	42,984	16,152	42,386	101,522	2.7	1.0	2.6	6.3	1,366	513	1,347	3,226
2001	11,940	10,866	37,931	60,737	0.7	0.7	2.4	3.8	379	345	1,205	1,930
2000	11,017	10,893	38,018	59,928	0.7	0.7	2.5	4.0	350	346	1,208	1,904
1999	9,304	11,950	41,636	62,891	0.6	0.8	2.9	4.4	296	380	1,323	1,998
1998	9,428	12,761	39,207	61,395	0.7	0.9	2.8	4.3	284	385	1,182	1,850
1997	6,916	12,773	39,343	59,031	0.5	0.9	2.8	4.2	208	385	1,186	1,779
1996	6,322	12,793	39,644	58,759	0.5	1.0	3.0	4.4	191	386	1,195	1,771
1995	5,559	12,344	39,492	57,395	0.4	0.9	3.0	4.3	168	372	1,190	1,730
1994	6,875	13,387	47,697	62,209	0.5	1.0	3.7	4.8	207	403	1,437	1,875

DEBT SERVICE COMPONENT OF OPERATING EXPENSES

(\$ as 000)	Actual				Budgeted	
	2000	2001	2002	2003	2004	2005
Gross Current Year Debt Service	\$8,408	\$8,248	\$8,234	\$10,794	\$10,918	\$11,011
(less Self Support Enterprise)	(4,546)	(4,224)	(4,511)	(4,225)	(4,363)	(4,072)
(less State Qual School)	(1,186)	(1,034)	(983)	(946)	(850)	(800)
(less POB)	0	0	0	(2,242)	(2,309)	(2,378)
Net Current Year Debt Service	\$2,676	\$2,990	\$2,740	\$3,381	\$3,397	\$3,761
Budgeted Operating Expense	\$56,634	\$59,936	\$62,912	\$65,062	\$67,174	\$69,607
Debt Service as % Oper. Expense	4.73%	4.99%	4.35%	5.20%	5.06%	5.40%

OVERLAPPING DEBT

The City is subject to an annual assessment of its proportional share of the County of Penobscot's expenses, including debt repayment, as determined by the percentage of the City's to the County's equalized State Valuation. At January 1, 2004 the City's equalized State Valuation of \$1,741,600,000 was 24.19% of the County's proposed equalized State Valuation of \$7,201,150,000. The City's share is 24.19%, or \$185,015, of Penobscot County's \$765,000 long-term debt outstanding as of December 31, 2003.

The City is a member of the United Technologies Center, Region #4 which territory is comprised of three cities, 11 towns, one plantation, four SAD's and one CSD. The City is responsible for its proportionate share of Region #4's long-term debt which is included in Region #4's annual assessment to the City. As of June 30, 2003, Region #4 had no long-term debt outstanding.

CONTINGENT DEBT

The City has no debt or obligations for which it is responsible for on a Contingent Basis.

TOTAL GENERAL OBLIGATION, OVERLAPPING AND CONTINGENT DEBT

	General Fund	Enterprise	Overlapping	Total Debt
C/O Bangor-School	\$13,477,309	\$0	\$0	\$13,477,309
C/O Bangor-School (POB)	1,686,587	0	0	1,686,587
C/O Bangor-Other Gen'l Fund	15,912,819	0	0	15,912,819
C/O Bangor-Other Gen'l Fund (POB)	26,592,308	0	0	26,592,308
C/O Bangor- Enterprise	0	42,197,956	0	42,197,956
C/O Bangor- Enterprise (POB)	0	5,656,105	0	5,656,105
County of Penobscot	0	0	185,015	185,015
Region #4	0	0	0	0
Total A/O June 30, 2003	\$57,669,023	\$47,854,061	\$185,015	\$105,708,099

FUTURE FINANCING

The City Manager develops a formal Capital Improvement Program that is submitted to the City Council (see "CITY FINANCES - CAPITAL IMPROVEMENT PROGRAM" herein). The CIP includes an inventory of possible capital projects, some of which may ultimately be included in its CIP, and is an indication of future projects that may be financed through the issuance of indebtedness. The issuance of debt, however, is subject to the prior review and approval of the City Council.

The SRF Loan

On May 10, 2004 the City Council is expected to authorize the issuance of \$2,650,000 of its general obligation bonds, the proceeds from which will be issued to provide funds to finance an eligible project through the State Revolving Loan Fund Program (the "SRF") administered jointly by the Maine Municipal Bond Bank (the "MMBB") and the State of Maine, acting by and through its Department of Environmental Protection (the "DEP"). The City intends to execute this borrowing in the fall of 2004.

The Police Station

By its Order adopted on August 25, 2003 and amended April 26, 2004 the Council authorized the City to issue its general obligation bonds to provide funds in the amount of \$7,000,000 to finance a new Police Station. A portion of the proceeds of the Bonds, in the amount of \$3,000,000, will be used to finance the first portion of the amount authorized for the project. The remaining \$4,000,000 portion of authorized but unissued debt for the new Police Station is expected to be financed by the City in 2005.

Other than the above projects, the City has no other authorized but unissued debt that it expects to finance through debt issues over the next year.

RETIREMENT

The City of Bangor provides retirement pensions for its employees through a number of vehicles, including a defined contribution plan, defined benefit pension plan and social security. Effective April 1, 2001, all new eligible employees are covered by the City's defined contribution plan. Prior to that date, the City's primary retirement vehicle was the Maine State Retirement System's ("MSRS") defined benefit plan. Existing employees were given the choice of remaining in the defined benefit plan or entering the new defined contribution plan.

A. DEFINED CONTRIBUTION PLAN

Description of the Plan - The City provides pension benefits for certain employees through a 401(a) defined contribution plan administered by ICMA/RC. In addition certain full-time employees are covered through both a 401(a) and 457 Deferred Compensation Plans ("DCP") also administered by ICMA/RC. In a DCP, benefits depend solely on amounts contributed to the plan plus investment earnings. Covered employees are eligible to participate and are fully vested from the date of employment.

Funding Policy - Plan members not covered by employment contracts are required to contribute 6.5% of their annual covered salary and the City is required to contribute either 8% or 10% depending upon the employee's classification. For fiscal year 2003 covered payroll was \$6,108,047 and City contributions were \$523,950. For those plan members that have employment contracts, the City contributes at various rates from 8% to 15% of annual earnings. The covered payroll and City contributions for those employees with employment contracts approximated \$502,518 and \$55,411 respectively, in fiscal year 2003.

B. DEFINED BENEFIT PENSION PLAN

Description of the Plan - The City contributes to the Maine State Retirement System Consolidated Plan ("CPPLD"), a cost sharing multiple-employer retirement system established by the Maine State legislature. The MSRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the CPPLD. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 6.5% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate ranges from 2.80% to 6.50% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Retirement System Board of Trustees. The City's contributions to the MSRS CPPLD for the years ended June 30, 2003, 2002 and 2001 were \$663,217, \$693,220 and \$846,415, respectively, equal to the required contributions for each year.

Unfunded Actuarial Liability - Upon joining the consolidated plan on July 1, 1997, the City's initial unfunded unpooled actuarial liability ("IUUAL") was calculated. The IUUAL represents the remaining amount of the pension liability upon transitioning to the consolidated plan from a participating local district (PLD). The City's IUUAL at the date of transition was wholly defeased through the issuance of \$34,030,000 in pension obligation bonds during fiscal year 2002.

C. DEFINED BENEFIT PENSION PLAN - TEACHERS GROUP

Description of the Plan - All school teachers, plus other qualified educators, participate in the MSRS's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The MSRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The same statute requires the State of Maine Department of Education, to contribute the employer contribution, which amounts to \$3,743,270 (19.17%) for the fiscal year 2003. This amount has been reported as an intergovernmental revenue and education expenditure in the GAAP basis financial statements. There is no contribution required by the school department except for federally funded teachers, for which they contributed 18.93 % of their compensation. This cost is charged to the applicable grant.

D. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

E. SOCIAL SECURITY

The City does not have a section 218 agreement to provide full social security coverage to its employees. The City does provide full social security coverage to part-time, seasonal and temporary employees under the Omnibus Budget Reconciliation Act of 1990, and Internal Revenue Service regulations, which became effective July 1, 1991.

ENVIRONMENTAL MATTERS

The City is subject to a wide variety of federal and State laws and regulations relating to land use, water resources, sewage disposal, the use, storage, discharge, emission and disposal of wastes and other environmental matters. While the City believes that its properties and operations are presently in material compliance with all land use and environmental laws, failure to comply with such laws could result in the imposition of severe penalties on operations by government agencies or courts that could adversely affect the City. The City is not aware of any environmental conditions or non-compliance, the remediation or correction of which the City believes would have a material adverse impact on the financial condition of the City. The City is not subject to any pending or threatened proceedings or actions involving environmental matters that, if adversely decided, would have a material adverse impact upon the City's financial condition or ability to pay debt service on the Bonds as and when due. While not having a material adverse impact upon the City's financial condition, or its ability to meet its debt service obligations, the City is voluntarily making the following disclosure with respect to environmental liabilities:

Wastewater Discharge Consent Decree Compliance

On June 30, 1987 the City entered into a consent decree (the "State Consent Decree") with the Board of Environmental Protection and the State of Maine pursuant to which the City agreed to provide for secondary wastewater treatment in accordance with the schedule set forth in State Consent Decree and to complete other improvements to its sewer collection system to address its combined sewer overflow problems. In April, 1991 the City entered into a consent decree (the "Federal Consent Decree") with the United States Environmental Protection Agency ("EPA"), which prospectively superseded the State Consent Decree, pursuant to which the City is required to (1) construct and operate a secondary wastewater treatment facility for the City's wastewater system in accordance with the schedule specified therein, which schedule supersedes the schedule specified in the State Consent Decree, (2) implement sewer rehabilitation projects in accordance with the schedule set forth in the Federal Consent Decree, (3) develop and submit to the Environmental Protection Agency and to the State of Maine a long-term master plan for sewer rehabilitation, abatement of combined sewer overflow ("CSO") discharges and other

relevant projects (the “CSO Facilities Plan”), (4) develop a CSO monitoring plan in accordance with the requirements of the Federal Consent Decree, (5) upon approval of the CSO Facilities Plan, to implement that plan upon the schedule set forth in the plan, and (6) otherwise take such specific measures as are identified in the Federal Consent Decree in order to assure compliance with the City’s NPDES permit for effluent discharge. The City’s five-year capital plan outlines sewer projects, which, in the City’s opinion, are sufficient to conform to the requirements of the Federal Consent Decree. The Secondary Wastewater Treatment Facility became operational in December of 1992, being the cornerstone of the complaint and the consent decrees. Since December 1992 the Facility has operated well within all consent decrees and NPDES requirements. Through ratepayer payments to the City’s Sewer Fund the City has been funding, and will continue to fund, CSO separation and other projects as required by the consent decrees.

Portland-Bangor Waste Oil Company Site Clean-up

On August 13, 1992, the City was served with a “Notification of Potential Liability/Request for Information” (the “Notice”) by the Maine Department of Environmental Protection (the “DEP”) in connection with DEP’s efforts to clean up five uncontrolled hazardous waste sites formerly operated by the defunct Portland-Bangor Waste Oil Company as disposal sites in the 1950s-1970s. The Notice was sent pursuant to Maine’s Uncontrolled Hazardous Substance Sites law, Title 38 of the Maine Revised Statutes, as amended, §1361 et seq. On February 12, 1998, the United States Environmental Protection Agency (“EPA”), under Section 107 of the Comprehensive Environmental Response Compensation Liability Act of 1980 (the “Act”), and the DEP gave notice to the City of potential liability with respect to response and remedial costs in connection with efforts to clean up an uncontrolled hazardous waste site, located in Plymouth, Maine, formerly operated by the defunct Portland-Bangor Waste Oil Company. The City is among approximately 100 communities, businesses and other entities that have been served with copies of the EPA/DEP Notice. Pursuant to a list compiled by EPA’s contractor, the City was assigned a total gallonage and a volumetric allocation (as stated in the contractor’s volumetric allocation for potentially responsible parties (“PRPs”)). Many of the PRPs are non-existent or non-viable, therefore there is a significant “orphan share” at the site, estimated to be as much as 58% to 65% of the volumetric ranking. Due to the extensive proportion of PRPs that comprise the orphan’s share (approximately 146,374 gallons) the current percentages allocated to the recognizable PRPs (the “PRP Group”) may be understated. To date, the EPA has expended \$6.6 million and the DEP \$850,000 in initial costs. Total costs for actual remediation are estimated to be between \$4 million to \$12 million, based upon ultimate remedy selection. Given the orphan share, it is not possible to establish a specific volumetric allocation, and therefore accurate contingent liability of the City, if any, at this time. A preliminary estimate of total costs is subject to a variety of unknown factors at this time, including ultimate costs, allocations of volume and PRP Group’s participation, each or all of which could and likely will change. Due to the substantial orphan share at the site and the cooperativeness of the PRP Group, the PRP Group has informed the EPA that it believes a substantial compromise to reimburse expenditures is appropriate. A Consent Decree, dated January 18, 2001 requires the City to pay \$76,557.22 for its share of past costs at the Plymouth site. The City has made this payment.

Penobscot River Cleanup

On its own initiative, since 1999 the City has been investigating the extent and impact of possible contamination of the Penobscot River bottom in an area around the City’s docks. In addition, the City has been examining potential sources of contamination in order to identify potentially responsible parties (“PRP”) that may be liable for contribution to the costs of remediation. One PRP has been identified and the City has filed suit to force cleanup of the contamination. The DEP, which has enforcement authority should it need to be utilized, has been notified of the City’s findings and is contributing to the costs of the investigation. The City is unable, at this time, to estimate the ultimate costs of this situation.

Resource Conservation Recovery Act Compliance

In August 2001, the EPA inspected the City's departments of public works, BIA, motor pool, and the air fuel facility for Resource Conservation and Recovery Act ("RCRA") compliance. On the basis of this inspection, the EPA filed a seven count administrative complaint against the City in September 2003. The majority of the complaints involved issues of employee training in hazardous waste handling and disposal; maintaining records on hazardous waste identification, handling and disposal; and appropriate storage of such wastes. Since then, the City has implemented all EPA's RCRA recommendations and has negotiated with the EPA to bring the matter to closure.

A major component to a settlement will be the City's involvement in a supplemental environmental project, funded by the settlement. The supplemental environmental project has not yet been finalized. Discussions are on-going with EPA regarding potential projects such as the possibility of using the funds to convert the City's motor vehicle fleet to bio-diesel fuel for two to five years (depending upon when the funding expires, at which time the City would evaluate the program and decide whether to continue) as bio-diesel fuel burns cleaner than standard diesel fuel and has the potential to significantly reduce vehicle emissions.

The City Council authorized the City Manager to enter into a settlement with EPA for an amount not to exceed \$225,000, with the understanding that the City will continue to negotiate with the EPA to utilize as much of the \$225,000 as possible for a supplemental environmental project.

LITIGATION

In the opinion of City officials there is no litigation pending against the City which, either individually or in the aggregate, would result in judgments that would have a materially adverse effect on the City's financial position or its ability to meet its debt service obligations.

OTHER INFORMATION

CITY OF BANGOR, MAINE
Assessed Valuation, Commitment and Collections
For the fiscal year ended June 30, 2003

VALUATION

Land and buildings	\$ 1,374,984,100
Land and buildings - Homestead exemption	37,814,000
Personal property	<u>278,430,400</u>
Total valuation	<u><u>\$ 1,691,228,500</u></u>

COMMITMENT

Real estate and personal property (excludes Homestead exemption)	\$ 1,653,414,500
Tax rate	<u>0.02360</u>
Total commitment	39,020,582

ADD

Supplemental taxes committed	<u>60,601</u>
	39,081,183

LESS

Collections 2003	37,785,056
Abatements	<u>311,677</u>
2003 taxes receivable at June 30, 2003	<u><u>\$ 984,450</u></u>

CITY OF BANGOR, MAINE
Undesignated Fund Balance Sufficiency Calculation
For the fiscal year ended June 30, 2003

It is the policy of the City to maintain an undesignated fund balance approximately 7.5% of operating expenditures. The following table sets forth the calculation as to the sufficiency of the June 30, 2003 undesignated fund balance.

General Fund expenditures/uses (Schedule A-2)

General government	\$ 3,992,860
Public safety	11,104,269
Health, welfare and recreation	3,172,189
Public buildings and services	7,919,573
Other agencies	3,311,873
Education	41,455,729
Other appropriations	3,822,731
Other uses, gross	<u>3,038,463</u>
Gross expenditures and uses	77,817,687
General Fund debt service	<u>5,345,651</u>
Net expenditures and uses	<u>\$ 72,472,036</u>
Indicated undesignated fund balance @ 7.5%	\$ 5,435,403
Actual undesignated fund balance (Schedule A-2)	\$ 8,892,684
Actual undesignated fund balance as a percentage of net expenditures and uses	12.27%
Over (under) funded status	<u>\$ 3,457,281</u>

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APPENDIX B

**CITY OF BANGOR, MAINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE
YEAR ENDED JUNE 30, 2003**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Bangor offers readers of the financial statements this narrative overview and analysis of the financial activities of the City of Bangor for the fiscal year ended June 30, 2003. This is the City's initial year of implementation of Statement No. 34 of the Governmental Accounting Standards Board, therefore comparative information from the government-wide statements is not available. The City is presenting comparative data that is based on key information presented in the fund financial statements for the general fund budgetary basis of accounting. In future years a comparative analysis of government-wide data will be presented. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in our letter of transmittal, which can be found on pages I-1 to I-6 of this report.

Financial Highlights

- The assets of the City of Bangor exceeded its liabilities at the close of the most recent fiscal year by \$189.1 million (net assets).
- As of the close of the current fiscal year, the City of Bangor's governmental funds reported combined ending fund balances of \$24.6 million, a decrease of \$1.6 million in comparison with the prior year. The decrease in fund balance is due to the expenditure of bond proceeds issued in the prior year. Approximately 67% of the total amount, or \$16.7 million is available for spending at the City's discretion (unreserved fund balance).
- The City of Bangor has a fund balance policy. The City strives to maintain a general fund unreserved/undesignated fund balance of 5% - 10% of current expenditures less debt service. At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$8.9 million, or 12.27% of the general fund expenditure base. The annual calculation is included within the financial statements as Schedule E-2.
- The total liabilities of the City's governmental and enterprise funds increased by \$200 thousand (2.1%) and \$3.2 million (6.2%), respectively. The increase in enterprise fund liabilities was due to increased accounts payable associated with an extensive runway repaving project and the issuance of \$4.6 million of general obligation bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Bangor's basic financial statements. The City of Bangor's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements present the financial picture of the City from the point of view of economic resources measurement and using the accrual basis of accounting, which is similar to

what private-sector companies' use. These statements present governmental activities and business type activities separately.

The statement of net assets includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leaves).

These statements are divided into two categories: governmental activities and business-type activities.

- Governmental activities – Most of the City's basic services are included here, such as the general government, public safety, public works, health and welfare, education, and parks and recreation. These activities are principally supported by taxes and intergovernmental revenues.
- Business-type activities – Currently, the City operates the following business type activities: Bangor International Airport, Sewer, the Bass Park Complex, Parking, Golf Course, Economic Development and the Park Woods Complex.

The government-wide financial statements can be found on pages II-14 to II-15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Bangor, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between governmental funds and governmental activities.

The City of Bangor maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund

balances for the general fund, community development block grant, and capital projects fund, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements (Schedule B) elsewhere in this report.

The City of Bangor adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (Schedule A-2).

- Proprietary funds are used to account for essentially the same functions reported as business-type activities in the government-wide financial statements. Enterprise funds are the only type of proprietary funds maintained by the City. The proprietary fund statements provide the same type of information as the government-wide statements, only in more detail.

The City maintains seven individual proprietary funds, all of which are considered to be major.

The City of Bangor adopts annual budgets for all its proprietary funds. Budgetary comparison statements have been provided for each proprietary fund to demonstrate compliance with budget (Schedule C1 – C7).

- Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Its statement of net assets is included elsewhere in this report as Exhibit 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages II-26 through II-48 of this report.

Government-wide Financial Analysis

The following is a condensed version of the Statement of Net Assets. Since this is the first year of GASB 34 implementation, no comparative data is available. In future years, comparative information will be provided.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Current & other assets	35,937,649	33,375,484
Capital assets, net	<u>55,837,902</u>	<u>189,735,099</u>
Total assets	91,775,551	223,110,583
Long-term debt outstanding	62,268,172	48,615,099
Other liabilities	<u>9,873,193</u>	<u>5,052,682</u>
Total liabilities	72,141,365	53,667,781
Net assets:		
Invested in:		
Capital assets, net of related debt	33,261,947	147,970,359
Restricted	507,743	-
Unrestricted	<u>(14,135,504)</u>	<u>21,472,443</u>
Total net assets	19,634,186	169,442,802

By far the largest portion of the City's net assets (96% or \$181.2 million) reflects its investment in capital assets (ie. land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to satisfy these liabilities.

Restricted net assets are those resources that are subject to external restrictions on how they may be used. While the remaining balance of unrestricted net assets is \$7.3 million, the governmental activity portion shows a deficit of \$14.1 million, which is primarily due to \$28.3 million of outstanding pension obligation bonds. Although the City made all required contributions to the Maine State Retirement System's (MSRS) Participating Local District plan, an unfunded pension liability existed at the time MSRS created the Consolidated plan. Until fiscal year 2002, this liability was being paid to the MSRS over twenty eight years at a rate of 8%. In fiscal year 2002, the City issued bonds to pay off the MSRS resulting in savings of \$8.2 million over the life of the debt.

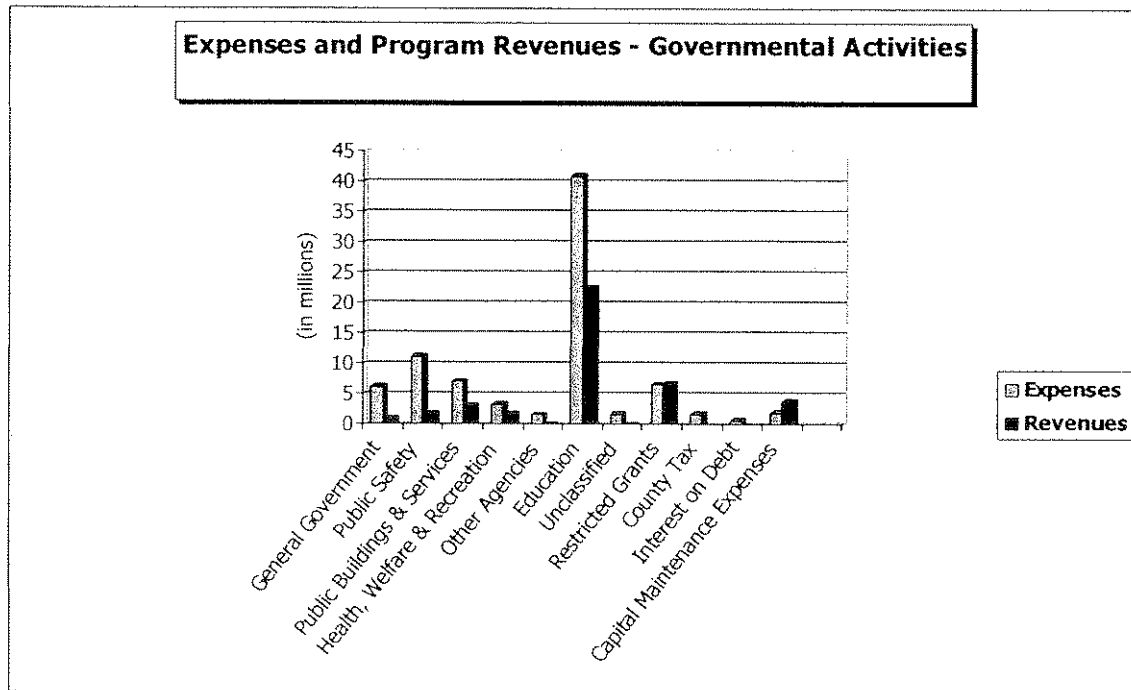
Changes in Net Assets

The following is a condensed version of the Statement of Activities.

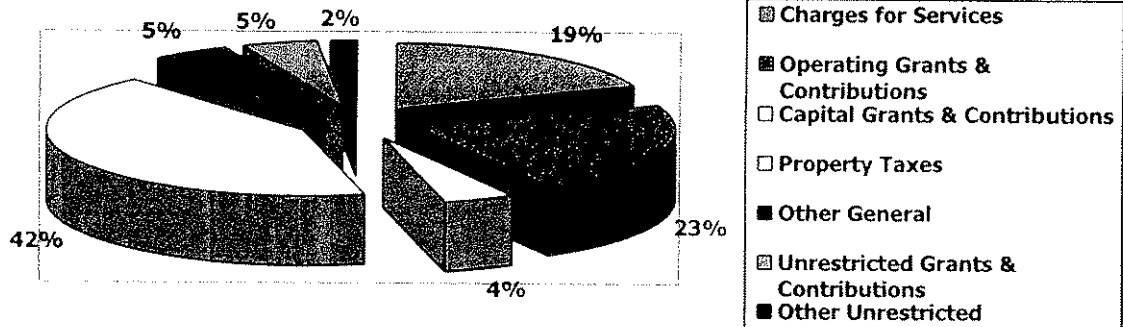
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Revenues		
Program Revenues		
Charges for services	15,169,744	19,325,452
Operating grants & contributions	21,566,478	-
Capital grants & contributions	3,814,705	11,274,222
General Revenues		
Property and other taxes	42,128,366	-
Grants and contributions not restricted to specific programs	4,059,770	-
Other	1,532,793	1,097,155
Total Revenues	88,271,856	31,696,829
Expenses		
General government	6,060,687	-
Public safety	11,114,804	-
Health, welfare and recreation	3,340,989	-
Public buildings and services	7,050,085	-
Other agencies	1,610,132	-
Education	40,828,756	-
Unclassified	1,844,069	-
Restricted grants	6,551,455	-
County tax	1,712,263	-
Interest on debt	740,077	-
Capital maintenance expenses	2,024,489	-
Sewer Utility	-	5,744,275
Airport	-	14,489,128
Park Woods	-	449,873
Parking	-	1,370,737
Bass Park	-	1,944,718
Municipal Golf Course	-	575,408
Economic Development	-	271,047
Total Expenses	82,877,806	24,845,186
Excess before special items and transfers	5,394,050	6,851,643
Transfers	(798,618)	798,618
Increase in net assets	4,595,432	7,650,261

Governmental Activities

The cost of all governmental activities was \$82.9 million. However, as shown on the Statement of Activities, the amount that the City's property taxpayers financed was \$37.6, million or 45.5%, because \$15.2 million was paid by those who directly benefit from the programs or by other governments and organizations that subsidized certain programs with operating grants and contributions in the amount of \$21.6 million, and capital grants and contributions accounted for \$3.8 million. The City also received \$10.1 million in other general revenues such as State Revenue Sharing, motor vehicle and boat excise taxes, homestead exemption, and interest earnings.



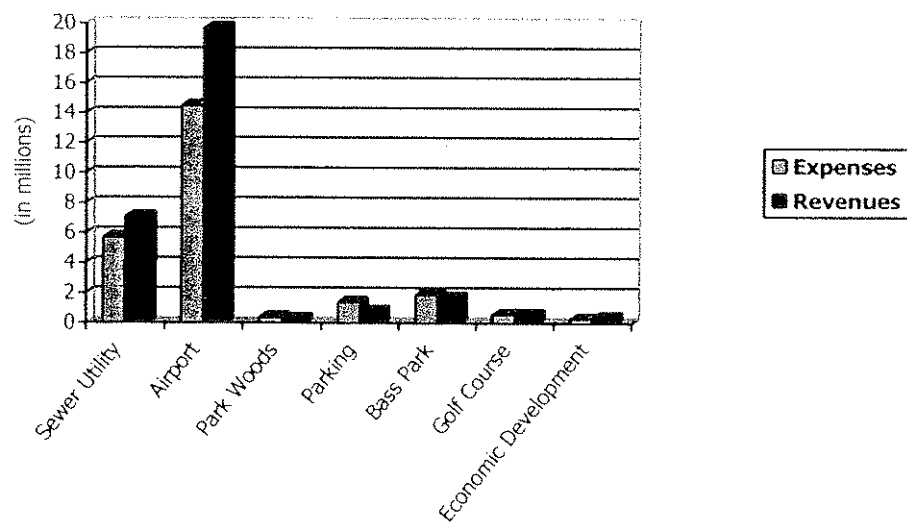
Revenues by Source - Governmental Activities



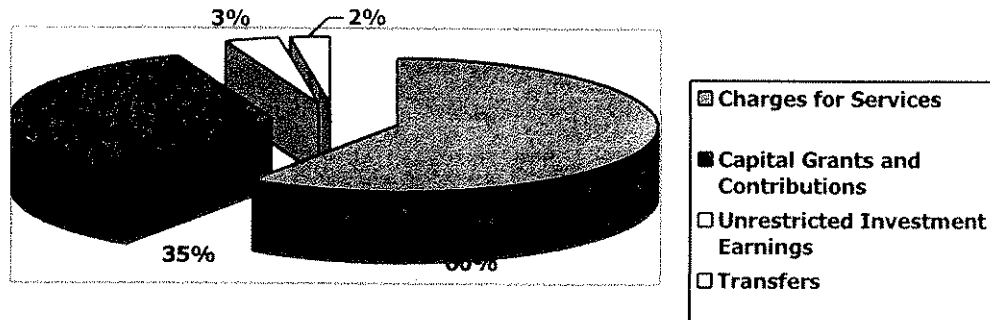
Business-type Activities

Business-type activities increased the City's net assets by \$7.7 million. The majority of this increase is attributable to the receipt of \$10.4 million in capital grants for the reconstruction of the Airport Fund's runway.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At fiscal year end, the City of Bangor's governmental funds reported combined ending fund balances of \$24.6 million, relatively unchanged in comparison to the prior year's balance of \$26.2 million. Approximately 67% of this total (\$16.7 million) constitutes unreserved fund balance which is available for spending at the City's discretion. The remainder of fund balance is reserved, indicating that it is not available for new spending because it has already been committed for various purposes including: liquidating contracts and purchase orders of prior periods (\$5.8 million), as a reserve for potential non-repayment of interfund balances (\$1.4 million), or for a variety of other restricted purposes (\$.7 million).

The general fund is the chief operating fund of the City of Bangor. At the end of the fiscal year, the unreserved fund balance of the general fund was \$14.6 million (\$5.7 million of which has been designated by management for subsequent years' expenditures), and the general fund's total fund balance was \$17.3 million, which is relatively unchanged from fiscal year 2002's balance of \$17.6 million.

Proprietary funds. The City of Bangor's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets of the seven enterprise funds totaled \$169.4 million, including a net asset deficit of \$1.2 million in the Bass Park Fund.

During the current year, the Municipal Golf Course, Economic Development and Bass Park enterprise operations individually experienced an increase in net assets ranging from \$31 thousand to \$267 thousand, while the increase in net assets for Sewer Utility and Airport operations were \$1.3 million and \$6.2 million respectively. Both the Parking and Park Woods enterprise operations experienced a decrease in net assets of \$110.2 thousand and \$164.5 thousand respectively.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows: \$1.5 million was appropriated from the City's unreserved undesignated fund balance to provide funding for a variety of improvements accounted for in the capital projects fund, and \$3.6 million in general obligation bond proceeds were used to refund a previous issue

Capital Asset and Debt Administration

Capital assets. As of June 30, 2003, the City of Bangor's investment in capital assets for its governmental and business-type activities amounts to \$245.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, roads, runways and sewer lines. The total increase in the City's investment in capital assets for the current fiscal year was 5.9% (a 10.3% increase for governmental activities and a .5% increase for business-type activities).

Major capital asset events during the current fiscal year included the following;

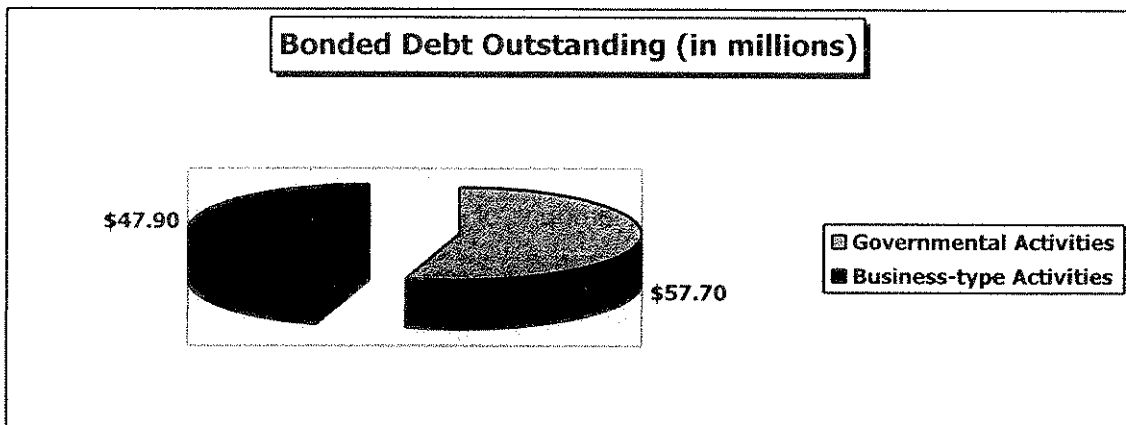
- Completion of a \$4.5 million expansion of Bangor High School
- Investment of \$1.4 million in infrastructure on the City's waterfront
- Improvements to local roads in the amount of \$1.6 million through state and local funding sources
- Purchase of 6 new BAT Community Connector buses to support the City operated regional transportation system in the amount of \$1.7 million in federal, state and local funds
- A private donation of \$1.4 million to construct a new outdoor aquatic center
- An additional \$3.0 million in general obligation bonds issued to continue the City's aggressive combined sewer overflow program
- State, federal, local, and defense department funding to finance \$10.0 million toward the reconstruction of runways at Bangor International Airport.

Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land and improvements	5,362,966	3,682,809
Buildings and improvements	26,475,633	18,948,198
Machinery and equipment	2,994,903	2,500,664
Vehicles	4,852,573	-
Infrastructure	3,905,950	37,974,460
Parking structures	-	5,307,083
Aircraft operational assets	-	105,329,961
Construction in process	12,245,877	15,991,924
Total	55,837,902	189,735,099

Debt Administration

At fiscal year end, the City had a total outstanding bonded debt of \$105.5 million, an increase of \$4.0 million during the year. The main factor in this increase was the Sewer Utility Fund's continued commitment to a Combined Sewer Overflow program (\$3.0 million) and the Economic Development Fund's purchase of a building (\$1.3 million).



During the year, the City refinanced some of its existing debt to take advantage of favorable interest rates. The City issued general obligation bonds to refinance previously outstanding limited revenue and general obligation bonds, resulting in a decrease in future debt service payments of \$1.2 million.

The City maintained a "AA-" rating from Standard & Poor's and a "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total State assessed valuation. The current debt limit for the City is \$241.4 million, an amount, which is significantly in excess of the existing general obligation debt.

Additional information on the City's long-term debt can be found in Note I on pages II-39 to II-42 of this report.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for the City of Bangor for calendar year 2002 is 3.12%, which is virtually unchanged from the rate of 3.01% a year ago. This compares favorably to the State's rate of 3.5%.
- The City's share of retail sales remains in excess of 9% of total statewide sales and 70% of county sales, while Bangor represents less than 3% of the state's population.
- The increased supply of new residential lots that began in 2002 continues in the current fiscal year. Developers continue to construct new housing without a need for the City to significantly improve infrastructure to accommodate this growth.

City of Bangor officials considered many factors when adopting the 2004 fiscal year budget. The primary objective was to keep the increase in the property tax to a minimum, given economic conditions and the on-going fiscal problems of the state.

Since existing property valuation is adjusted annually to current market conditions, the Council focused on minimizing the individual property tax bill. While the mill rate decreased for fiscal year 2004, the average increase in existing property valuation increased 5%. Given that the value of existing property increased by 5% for fiscal year 2004, the City's mill rate was decreased to partially off-set this impact.

Past events and current projections indicate that the state will continue to face significant shortfalls in its budget. Given the general consensus that the tax burden in Maine is too high, it is likely that strong efforts will be undertaken to reduce state spending. This may result in reductions to state aid programs to municipalities in such areas as education and revenue sharing.

Management continues to track other areas of revenue and expense concerns as well. On the revenue side, our focus is on the continued low and flat rates of return on investments and the ability of automobile excise tax collections to keep pace with its recent trend of 4.5% average annual increases. As for expenses, insurance costs have proven the most volatile. After several years of double-digit increases in both employee health and commercial insurance coverage, estimates for fiscal year 2004 are promising. The City will actually see a small decrease in employee health insurance rates and a less than 10% increase in commercial insurance rates. Management continues to be mindful that insurance rates could easily return to their recent history of large annual increases.

User rates for both governmental and business-type activities are reviewed on an annual basis, to ensure that fee structures are sufficient in relation to market conditions and the cost to provide such services. Many fees are adjusted annually for inflation, and no significant increases in user rates are foreseen at this time.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Bangor's finances. Questions concerning any of this information should be addressed to the Finance Director, City of Bangor, 73 Harlow Street, Bangor, ME 04401.

APPENDIX C

PROPOSED FORM OF LEGAL OPINION

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One Monument Square
Portland, ME 04101-1110

207-791-1100 voice
207-791-1350 fax
info@pierceatwood.com
pierceatwood.com

Upon delivery of the Bonds described herein, Pierce Atwood, Portland, Maine, bond counsel, proposes to issue its opinion in substantially the following form:

[dated date of issuance]

City of Bangor, Maine
Bangor, Maine

Re: City of Bangor, Maine \$9,227,000* 2004 General Obligation Bonds
Dated June 1, 2004

Ladies and Gentlemen:

We have acted as bond counsel to the City of Bangor, Maine (the "City") in connection with the issuance and sale by the City of the above-described general obligation bonds.

We have examined Title 30-A, Section 5772 of the Maine Revised Statutes, as amended, Article VI, Section 13 of the City's Charter, the record of proceedings submitted to us by the City, in connection with the issue and sale of the above-described Bonds, including among other documents, certified copies of orders of the City Council adopted at its meetings held on August 25, 2003 and April 26, 2004 (the "Bond Orders"), an approval of the City's Finance Committee dated May __, 2004, and any necessary approval of the State of Maine Department of Education and on the basis thereof, we are of the opinion that the issuance and sale of the above-described Bonds have been duly authorized by the City.

The Bonds should be signed by the Finance Director of the City and countersigned by the Chairman of the City Council to be sealed with the seal of the City attested by its Clerk, and should bear the signed certificate of the certifying agent identified thereon.

We understand the Bonds are dated as of June 1, 2004 and have been issued in the following denominations and principal amounts, bearing interest and maturing as of November 1 of each year as reflected hereinbelow:

* Preliminary, subject to change

<u>Nov. 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Nov. 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>
2004	\$212,000		2014	\$210,000	
2005	\$1,320,000*		2015	\$205,000	
2006	\$1,275,000*		2016	\$155,000	
2007	\$1,235,000*		2017	\$155,000	
2008	\$1,190,000*		2018	\$155,000	
2009	\$1,140,000*		2019	\$155,000	
2010	\$570,000*		2020	\$155,000	
2011	\$210,000		2021	\$155,000	
2012	\$210,000		2022	\$155,000	
2013	\$210,000		2023	\$155,000	

Bonds maturing on or before November 1, 2014 are not subject to optional redemption prior to their stated dates of maturity. Bonds maturing after November 1, 2014 are subject to redemption prior to their stated dates of maturity, at the option of the City, on and after November 1, 2014, at the times and at the prices specified therein.

We have examined Bond No. 1 and are of the opinion that said Bond is in proper form and duly executed by the City.

In expressing the opinion set forth in paragraphs 3 and 5 hereinbelow, we have examined and relied upon the Arbitrage and Use of Proceeds Certificate and General Certificate of the Finance Director of the City (collectively the "Certificates") delivered concurrently herewith, which contain representations, certifications, warranties, provisions and procedures regarding compliance with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The City, in executing such Certificates, has certified to the effect that the information therein is true and accurate and that the City will comply with the provisions and procedures set forth therein and do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds is not includable in gross income for federal income tax purposes. In rendering the opinion set forth in paragraph 3 and 5 below, we have relied upon the representations of the City set forth in such Certificates, and we have assumed that the City will comply with the representations, certifications, warranties, provisions and procedures set forth in such Certificates.

We note that the Code establishes certain requirements regarding use, expenditure and investment of the proceeds of the Bonds and timely payment of certain investment earnings to the U.S. Treasury that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income for federal income tax purposes pursuant to Section 103 of the Code. Noncompliance with such requirements may

* Preliminary, subject to change

cause interest on the Bonds to be included in the gross income of the owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

We also note that ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

With reference to the Bonds, we are further of the opinion that under existing law:

1. Under the Constitution and laws of the State of Maine, the City has been duly created and validly exists as a body corporate and politic and a municipality under the name of the City of Bangor, with lawful power and authority to adopt the Bond Orders and to issue the Bonds.
2. The Bonds, executed as above described and subject to due authentication, have been duly authorized and are valid and binding general obligations of the City, enforceable in accordance with their terms, and all taxable property within the City is subject to the levy of unlimited ad valorem taxes to pay the Bonds, except to the extent the City may enter into an agreement under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality, and except to the extent that the City has established or will establish municipal development districts as tax increment financing districts municipal affordable housing districts pursuant to Title 30-A, Chapter 206 and 207 of the Maine Revised Statutes, as amended, the captured tax increment of which may not be available for payment of debt service on the Bonds.
3. Based on existing statutes, regulations and court decisions, interest on the Bonds is excludable from the gross income of the owners thereof for purposes of federal income taxation. Interest on the Bonds will not be treated as a preference item in calculating alternative minimum taxable income of individuals and corporations; however, interest on the Bonds will be includable in the adjusted net book income or adjusted current earnings of a corporation for purposes of calculation of the alternative minimum tax imposed upon corporations and will be taken into account for purposes of the foreign branch profits tax.
4. Interest payable on the Bonds is not subject to Maine income taxes imposed upon individuals under existing statutes, regulations and decisions.
5. The Bonds will constitute “qualified tax-exempt obligations” under Section 265(b) of the Code.

The foregoing opinions are qualified to the extent that the enforceability of the obligations of the City, including the Bonds, may be limited by bankruptcy, moratorium or insolvency or other laws affecting the rights and remedies of creditors generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have not examined and assume no responsibility for the financial condition of the City and nothing set forth herein shall be construed as assurance as to the City's financial condition or ability to make required debt service payments on the Bonds.

The opinions rendered herein are given as of the date hereof and we assume no obligation to update, revise or supplement such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PIERCE ATWOOD

By: _____
James M. Saffian
A Member of the Firm

APPENDIX D

**PROPOSED FORM
OF
CONTINUING DISCLOSURE CERTIFICATE**

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**CITY OF BANGOR, MAINE
PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

In connection with the issuance by the City of Bangor, Maine (the "Issuer") of its \$9,227,000 2004 General Obligation Bonds, dated as of June 1, 2004 (the "Bonds") and with reference to the continuing disclosure requirements of Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule"), the Issuer hereby covenants that it will engage in the undertakings described in Paragraphs 1, 2 and 3 herein for the benefit of the beneficial owners of the Bonds, subject to the conditions and limitations specified herein. The Issuer reserves the right to incorporate by reference its Official Statement dated May 25, 2004 relating to the Bonds (the "Official Statement"), which will be submitted to the MSRB, as hereinafter defined, at the time of delivery of the Bonds, in any future disclosure provided hereunder.

1. The Issuer will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State of Maine ("SID"), if any (as of the date hereof there is no SID for Maine): (a) not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2004, financial information and operating data relating to the Issuer for the preceding fiscal year of the type presented in the Official Statement prepared in connection with the Bonds regarding (i) revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) rate information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles.

The Issuer reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information to reflect changed circumstances, provided that any such modification will be done in a manner consistent with the Rule.

2. The Issuer will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults;
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - e. Substitution of credit or liquidity providers, or their failure to perform;
 - f. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
 - g. Modifications to the rights of securities holders;
 - h. Bond calls;
 - i. Defeasances;
 - j. The release, substitution, or sale of property securing repayment of the Bonds; or
 - k. Rating changes.

The Issuer from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgement of the Issuer, such other event is material with respect to the Bonds, but the Issuer does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

3. The Issuer will provide, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure to satisfy the requirements of Paragraph 1 herein.

4. The intent of the Issuer's undertaking in this Continuing Disclosure Certificate is to provide on a continuing basis the information described in the Rule. The provisions of the Continuing Disclosure Certificate may be amended by the Issuer without the consent of, or notice to, any beneficial owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Issuer for the benefit of the beneficial owners of the Bonds, (d) to modify the contents, presentation and format of the financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined either by a party unaffiliated with the Issuer (such as bond counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers of municipal securities to provide all or any portion of the information the Issuer has agreed to provide pursuant to the Continuing Disclosure Certificate, the obligation of the Issuer to provide such information also shall cease immediately.
5. The purpose of the Issuer's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the Bonds, from time to time, to specifically enforce the Issuer's obligations hereunder, not to create new contractual or other rights for any beneficial owner of the Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the Issuer to comply with any provision herein shall be an action for the specific performance of the Issuer's obligations hereunder and not for money damages in any amount. Any failure by the Issuer to comply with any provision of this undertaking shall not constitute an event of default with respect to the Bonds.
6. The NRMSIRs as of the date of this Continuing Disclosure Certificate are set forth in EXHIBIT A hereto.
7. The Issuer has never failed to comply in any material respect with any previous undertakings in regard to continuing or material events disclosure.
8. The Issuer's Finance Director, or such official's designee from time to time, shall be the contact person on behalf of the Issuer from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is: Deborah A. Cyr, Finance Director, City of Bangor, 73 Harlow Street, Bangor, ME 04401; Telephone: (207) 945-4400.

CITY OF BANGOR, MAINE

By: _____

Its: _____

Dated: _____, 2004

EXHIBIT A

NRMSIRs

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: munis@bloomberg.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpdata.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: nrmsir@ftid.com

Standard & Poor's J. J. Kenny Repository

55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

OR THE

MSRB

MSIL System
1900 Duke Street, Suite 600
Alexandria, VA 22314
Tel: (703) 797-6600
Fax: (703) 797-6704
<http://www.msrb.org>

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APPENDIX E

**PROPOSED FORM
OF
MUNICIPAL BOND INSURANCE POLICY**

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: []

Policy No: []

BONDS: []

Effective Date: []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title: